WALT DISNEY PRODUCTIONS ANNUAL REPORT

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Financial Highlights

(in thousands, except per share data)

	1985	1984	Change
Revenues	$2,015,429	$1,655,977	+ 22%
*Operating income**	418,796	291,033	+ 44%
Net income	173,491	97,844	+ 77%
Per share	5.15	2.73	
Return on stockholders equity	15%	8%	
Cash provided by operations	531,302	414,036	+ 28%
Stockholders equity	1,184,888	1,155,485	
Per share	36.63	34.26	

* Before unusual charges and change in accounting in 1984

Disney Chairman Michael Eisner and President and Mrs. Ronald Reagan enjoy the pageantry at Epcot Center's biggest event of 1985 — the Memorial Day reprisal of the President's inaugural parade, featuring 2,500 musicians from 16 states.

To Our Owners
and Fellow
Disney Employees

What a year it's been! Enormous vitality and enthusiasm at every level of management together with solid accomplishments at the operating level have marked our first year as the senior managers of your company.

Only as we reflect on our first anniversary do we see in clear perspective how fortunate we were in three principal respects:

- The enormous potential of Disney assets developed under the stewardship of prior managements,
- The remarkable capabilities of the managers of the operating units, and
- How vitally important the renowned Disney culture is to the success of the Company.

All of these superb values contributed to the most gratifying accomplishment: the achievement of the highest revenues and net income in Disney's history.

Revenues surpassed $2 billion for the first time, a 22 percent increase from a year ago, while net income increased 77 percent, earnings per share 89 percent and return on equity increased to nearly 15 percent.

For the fiscal year ended September 30, 1985, revenues climbed to $2 billion from $1.7 billion a year ago. Net income rose to $173 million or $5.15 per share, compared to $98 million, or $2.73 per share a year earlier.

To provide perspective on the company's pace of growth, Disney first passed $100 million in revenues in 1965, $500 million in 1975, $1 billion in 1981 and $2 billion in 1985.

After our first full year, we are pleased to report that the strategies we set forth for Disney's long-term growth are rapidly taking shape.

Our overall goals of accelerating Disney further into the mainstream of entertainment and creating greater financial balance between operating units have required a commitment to creativity and innovation, with fresh visions based on historical Disney traditions.

Since each of our major business segments will be discussed subsequently in some detail, we will simply highlight certain steps taken during 1985 toward implementing priorities.

The steps taken include:

- Bringing into the company an exceptionally creative and high-quality staff in motion picture and television production.
- Reducing motion picture risks for stockholders through Silver Screen Partners II, a public offering.
- Re-entering pay cable television distribution and entering for the first time the television syndication business.
- Re-establishing Disney as a major force in network television through creation of a diverse range of programming sold to all three networks.
- Boosting appeal and entertainment value of theme parks through successful, innovative marketing efforts.
- Developing unique and exciting attractions for the theme parks with the best creative talents in the industry.
- Expanding the objectives and potential earnings of the consumer products division.
- Successfully integrating Arvida's and Disney's community development resources.
- Assuring the continued success of The Disney Channel with enhanced management vitality.

It became quickly apparent to us that Disney is a complex and sophisticated company. Its success is dependent not on the strength of any one particular business unit, but on the interaction and support of diverse business units on one another.

The key to returning Disney into the entertainment mainstream and providing the initial link in the creative chain reaction among business units is our motion picture and television activity.

Among the corporation's greatest accomplishments this past year was to attract a remarkable number of the industry's premier executive talents, starting with Jeffrey Katzenberg, chairman of Motion Pictures and Television, and Rich Frank, its president. They, in turn, have installed a creative, high-quality staff and laid the groundwork critical to revitalization of motion pictures, positioning Disney as a long-term major force in the industry.

During the year, Disney entered into an agreement with Silver Screen Partners II, a public limited partnership, which was seeking to raise $100 million in a public offering for the financing of Disney film production costs. Due to extraordinary public interest, the offering was subsequently re-registered and expanded. When the offering closed, it had raised gross proceeds of $193 million from over 28,000 investors, becoming the largest film limited partnership ever assembled.

To maximize the value of our growing film and television library, pay television and domestic syndication departments were created and staffed during the year. Both achieved early results with the sale of seven pictures to pay cable services and major, headline-noted offerings to independent television stations.

In animation, we are moving quickly under Vice Chairman Roy E. Disney's leadership to become the state-of-the-art leader in computer-assisted production. Our staff is delving into advanced technologies that will speed up the production cycle to 18 months from the current four to five years required for a feature-length picture, without impinging on the creativity of our animation artists or the quality of their work.

While it will take at least two more years for Disney to emerge with a major studio-size release schedule, we have been fortunate in making great strides toward returning Disney to network prominence in just 12 months.

Our television presence currently includes:

- A return of the Disney anthology series on February 2, 1986, with original one- and two-hour movies in a show called "The Disney Sunday Movie."
- A prime-time situation comedy called "The Golden Girls," hailed as the freshest, funniest hit of the season.
- Two regular animated series on Saturday morning children's television: "The Adventures of the Gummi Bears" on NBC and "The Wuzzles" on CBS.
- A major commitment with NBC for a variety of prime-time specials, featuring new theme park attractions, original animated shows and musical variety programming from our parks.

The Disney Channel, now available in over 2,500 cable systems, ended the fiscal year with 2.3 million subscribers and anticipated growth to 2.5 million by year-end. During the year the number of subscribers increased 930,000, leading the cable industry in growth for the second consecutive year. The Channel turned profitable early in the fiscal second quarter, ahead of projections.

Walt Disney Home Video increased its market share while revenues passed $100 million for the first time, continuing the sustained success it has had since the start of operations five years ago. In the past Christmas season, the company shipped a record one million cassettes, including 21 titles, in the single most successful promotion to date for the company.

In a milestone year, our theme parks demonstrated their resilience with exceptionally strong financial performance. Disneyland greeted its 250 millionth guest during an event-filled, year-long celebration of its 30th anniversary and Walt Disney World passed the 200 million mark. The appeal and entertainment value of both parks benefited from aggressive, creative marketing programs while profitability improved through new operational efficiencies.

Walt Disney World conducted its first major television promotional campaign in more than 50 U.S. markets with excellent results. Promotional tours of Disney characters and entertainers in more than 120 cities reinforced media campaigns.

Disneyland's 30th year festivities received sustained national television coverage and was beamed by satellite around the world. NBC aired, and repeated, a two-hour entertainment special.

To ensure the continuing popularity of Disney theme parks, unique and exciting attractions are planned for 1986 and beyond.

The Living Seas pavilion, opening early in 1986, will be a spectacular addition to Epcot Center. Presented by United Technologies, it will offer exciting travel through an undersea corridor in the largest facility ever dedicated to man's relationship with the underwater world.

George Lucas, Francis Ford Coppola, and superstar Michael Jackson, in collaboration with Disney's own legendary WED Imagineers, have created a unique three-dimensional narrative film presentation that will be shown exclusively at the Journey into Imagination pavilion at Epcot Center and a newly-built theater at Disneyland. "Captain Eo," a musical space fantasy, with original songs written, produced and sung by Michael Jackson, will be presented by Kodak. It will premiere in the spring, supported by a network television special.

George Lucas is also working with Disney's Imagineers on an innovative ride for Disneyland that will involve a journey to the world of "Star Wars," employing the most advanced simulator technologies. It will open in the fall.

In addition, we announced plans to open the Disney-MGM Studio Tour as a third-gated attraction at Walt Disney World. It will provide an entertaining history of film in association with MGM. It will also include other rides, attractions, merchandising and restaurants.

Most importantly, there will also be a working film studio and ani-

mation facilities. Working film and television facilities will accommodate the dual purpose of giving the tour credibility while we meet the production needs of our greatly increased film schedule.

Our consumer products division continued to expand its role and earnings potential by taking the lead in developing new Disney characters, with its involvement in the creation of products tied to our Saturday morning television shows and through its licensing of characters for high-fashion sportswear lines for the whole family.

Mickey Mouse fashions, which began as a trend two years ago in Europe, has become a U.S. merchandising phenomenon.

The acquisition of Arvida Corporation in June 1984 continues to prove to have been a farsighted investment that will pay for itself in a relatively short period of time.

Now called Arvida Disney Corporation, we have successfully integrated Arvida's excellent community development resources with Disney's expertise with the result that exceptional planning and management skills are being concentrated on all Disney properties, with particular focus on Walt Disney World and Euro-Disneyland.

As we announced at our last annual meeting, the decision on the site of a Euro-Disneyland has been narrowed to France or Spain. The decision, which will be made soon, will be a difficult one because of the opportunities both countries present.

Because of our growing international interests, Disney became the 12th U.S. company to list its common stock on the Tokyo Stock Exchange. Tokyo Disneyland has become an integral part of the city's landscape, surpassing 25 million admissions since its start in April 1983.

The depth of financial management of this company was considerably strengthened with the appointment of Gary L. Wilson as the company's Executive Vice President and Chief Financial Officer. He comes to us from the Marriott Corporation. Under Gary's stewardship, we are certain his strategic vision will guide our long-term success.

We are also fortunate to have Joe Shapiro as Senior Vice President-General Counsel. He joins us from Donovan Leisure Newton & Irvine, where he became thoroughly familiar with Disney legal affairs.

After a full year in the company, we continue to view our role as instilling a sense of direction, motivating constructive change within the framework of continuing traditions and infusing the organization with renewed vitality. That is our pledge.

While taking new directions, it is clear that the single most valuable asset of this company is the name "Disney." It is critical that the public understands who we are and what the name stands for.

A corporate identity study, conducted over the past two years, indicates the name "Walt Disney Productions" primarily connotes involvement in motion pictures and television. Since 1938, when the company was incorporated, numerous divisions and subsidiaries have become dynamic Disney business entities. Many of these represent activities and products separate from filmed entertainment.

Chairman Michael D. Eisner and President Frank G. Wells

We anticipate our shareholders will adopt a proposal to rename the corporation The Walt Disney Company at the annual meeting.

We believe this change, which maintains the legacy of Walt Disney, will provide an excellent umbrella under which each of our business entities will have a well-defined Disney identity and purpose.

While we are pleased with the company's progress in our first year, we consider it a beginning. The credit for that progress, in any case, should go to the 30,000 talented and dedicated men and women who make up the cast. We are grateful to them and to our more than 58,000 stockholders for their continued support in our efforts to improve the value of their investment.

Executive Vice President
Gary L. Wilson

Michael D. Eisner
Chairman and Chief Executive Officer

Frank G. Wells
President and Chief Operating Officer

Walt Disney Attractions

Walt Disney World and Disneyland launched aggressive marketing and promotional campaigns which helped spark a banner tourism year and record operating results. Both parks also continued ambitious expansion programs on new entertainment attractions.

Tokyo Disneyland, owned and operated by the Oriental Land Company, continued to prove Disney's international popularity in its second full year of operation despite competition from an international world's fair.

Meantime, the company continued to negotiate with the governments of France and Spain for a specific European Disneyland site.

Entertainment and Recreation
(In thousands)

	1985	Change	1984	Change	1983
Revenues	$1,257,517	+ 15%	$1,097,359	+ 6%	$1,031,202
Operating income	266,387	+ 38%	192,695	− 2%	196,878
Operating margin	21%		18%		19%

Total theme park attendance was up 8% from 1984. Attendance at Disneyland was up over 19% from the prior year, due in part to the success of its 30th Anniversary celebration and in part to a favorable comparison with last year's fourth quarter, which was adversely affected by the summer Olympic Games. Attendance at the Walt Disney World theme parks was up 3% from 1984.

Increased revenues for 1985 also reflect higher per capita guest spending (including price increases) at the theme parks and resorts. In 1984, revenues were negatively affected by the Olympic Games, yet were up slightly from 1983 due to increased per capita spending (including price increases) offset somewhat by lower attendance at Disneyland.

In 1985, increased labor and marketing costs contributed to higher operating costs over 1984. In 1984, increased labor costs, depreciation and property taxes contributed to higher operating costs over 1983. For both periods, operating efficiencies partially offset increased labor rates.

Gross profit margins for food and merchandise continue a four year trend of improvement. The overall 1985 margin for the segment improved over 1984 due to the operating efficiencies and higher attendance levels noted above.

Walt Disney World®

Walt Disney World aggressively promoted outside Florida for the first time, launching a two-month television advertising campaign in 51 key Midwest and Northeast markets in February. More than a million and a half viewers responded with toll-free telephone calls for reservations and additional information. Marketing teams and Disney characters also promoted the resort's attractions in 120 cities. The results were reflected in significant admission increases prior to the busy summer season.

Memorial Day became Walt Disney World's biggest event of the year as President Ronald Reagan and the First Lady attended a reprisal of his inaugural parade at Epcot Center. The parade had been canceled in January when snow and cold weather interrupted inaugural ceremonies in Washington.

Along with 40,000 guests at World Showcase, the President and Mrs. Reagan applauded the performance of 2,500 musicians, representing 20 high schools from 16 states. The ceremony, topped off by fireworks and a flyover salute by Air Force jets, was the first inaugural event held outside the nation's capital since 1789, when George Washington was sworn in at New York's Federal Hall.

Epcot Center also presented a summer-long "Star-Spangled Salute to America" show, featuring 20 dancing Rockettes from Radio City Music Hall, and WorldFest celebrations continued at each of the 10 World Showcase countries. A weekend "Skyleidoscope" show, featuring dozens of unique floating and flying machines, made an autumn debut at World Showcase Lagoon.

Magic Kingdom's colorful presentations included the Happy Easter Parade, nationally televised by ABC, and the Main Street Electrical Parade, with floats outlined by hundreds of thousands of twinkling lights, returned as a nightly attraction.

Superstar Michael Jackson heads a crew of space warriors (above) in the 3-D musical fantasy, "Captain EO." The 15-minute film also combines the talents of "Star Wars" filmmaker George Lucas as executive producer and Francis Ford Coppola as director. "Captain EO" debuts in March 1986 at Kodak's Journey into Imagination pavilion at Epcot Center and at Tomorrowland at Disneyland. At left, delighted youngsters visiting Canada's WorldFest Celebration at Epcot Center are met by "Clansman McGoofy," whose Tartan costume reflects the nation's Scottish heritage.

Walt Disney Attractions

Richard A. Nunis
President
Walt Disney Attractions

Keeping pace with attendance demands, the resort opened 500 more hotel rooms and villa accommodations for overnight guests, planned additional monorail trains, and opened new dining facilities, including the elegant 250-seat Nine Dragons Restaurant in the China showcase.

Meantime, dazzling new attractions were readied for 1986, including The Living Seas pavilion in Epcot Center's Future World.

Premiering in January as a United Technologies presentation, The Living Seas will be the largest man-made ocean environment. The 170,000-square-foot pavilion will feature a 5.6-million-gallon tank of salt water, which surrounds a Caribbean coral reef teeming with sea life. An underwater research base, two theaters and technological exhibits are among the attractions, along with a restaurant in which diners can look into the undersea environment.

In March, Disney guests can travel to the outer limits of space with the debut of "Captain EO," a 15-minute 3-D film featuring the dancing and singing talents of rock star Michael Jackson, who wrote original music for the space fantasy. "Captain EO" combines work of numerous great talents, including "Star Wars" filmmaker George Lucas as executive producer and Francis Ford Coppola as director. Presented by Kodak, "Captain EO" will be shown exclusively at the Journey into Imagination pavilion at Future World and at a new Tomorrowland theater at Disneyland.

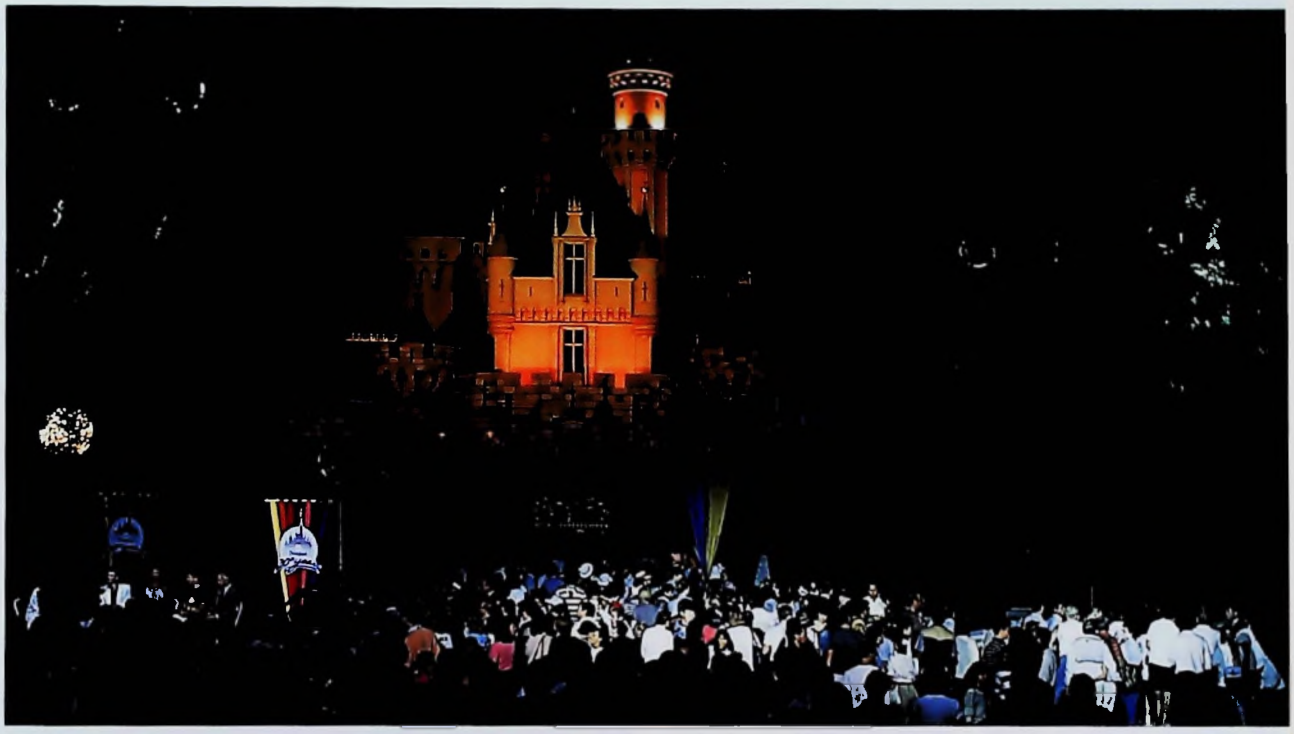
Conceptual planning is underway on what is to become Walt Disney World's largest project since Epcot Center — the Disney-MGM Studio Tour. As a third, separately gated themed complex, the project will offer unique entertainment experiences and also function as a working film studio. Production capabilities for live action and animated features will initially equal Disney's Burbank studio operations, and support the company's expanding motion picture and television schedule.

MGM is not a partner in the studio tour attraction, but Disney has licensed rights to the MGM-UA Entertainment Co. film library and name, and will use logos, film excerpts and other memorabilia as part of a ride-through adventure covering the history of Hollywood and the secrets of movie-making.

Construction will begin on a Norway exhibit at World Showcase and on Disney's Grand Floridian Hotel. The Norway showcase will reflect ancient Norse mythologies and cultures, including a Viking ship ride, with shopping and dining experiences set in a 14th century village.

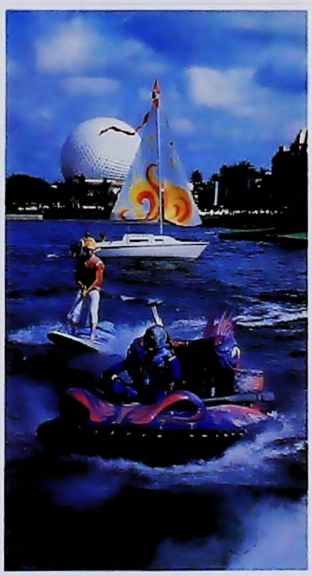
Above: It's feeding time in the 5.6-million-gallon salt water tank of The Living Seas pavilion, opening in January 1986 at Walt Disney World's Epcot Center. The spectacular attraction, teeming with sea life and equipped with research facilities, represents the largest man-made ocean environment on earth.

Opposite: Guests crowd Disneyland's Main Street (top) during the park's 24-hour-long 30th Birthday Party on July 17th, which attracted 77,000. Unique water craft (below) are among more than 60 machines cavorting in Epcot Center's new "Skyleidoscope" show on weekends at World Showcase Lagoon.



The 900-room Grand Floridian will be styled after a Victorian-era resort, with elaborate woodwork, broad porches and ceiling fans. It will be located near the Polynesian Village and the Magic Kingdom.

Anticipating its busiest year in 1986, Walt Disney World will expand promotional efforts through increased television, radio and print media advertising in markets east of the Mississippi. Television networks are also expected to develop a series of programs on the park's new attractions and special events.



Disneyland®

Disneyland's 30th Anniversary Celebration, which rewarded guests with $12 million in prizes, became Disney's biggest and most successful event of 1985. An estimated 400,000 gifts, including 400 new General Motors cars, went to lucky guests identified by the elaborate "Gift-Giver Extraordinaire" at the main gate of the theme park. Designed as both a marquee display and an accurate counting device, the Gift-Giver noisily signaled a winner with every 30th click of the turnstiles.

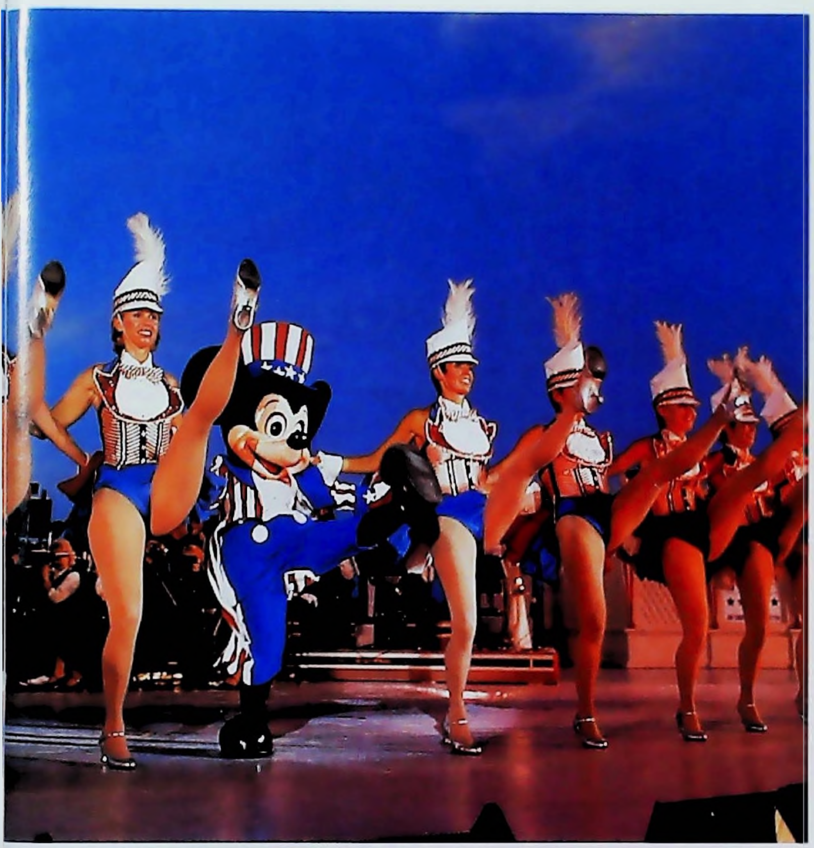
Complementing the beginning of its sweepstakes program on January 1, Disneyland launched a busy schedule of events commemorating its birthdate.

Activities designed as news events included a portrait of children from around the world, dressed in their native costumes, in front of Sleeping Beauty Castle; a 30-day round-the-world tour by the Disneyland Ambassador; and Hollywood Bowl concerts.

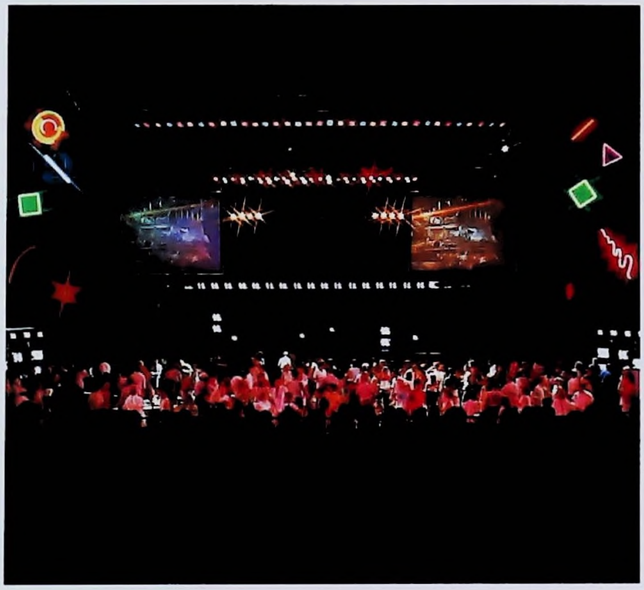
NBC-TV also helped create public awareness with a two-hour, prime-time special on the 30th Celebration, filmed at the park. The program, co-hosted by John Forsythe and child star Drew Barrymore, aired on February 18 and was repeated later in the year.

As summer vacations began, Disneyland opened Videopolis, an outdoor teen dance club, which quickly became one of the park's most popular nighttime attractions. Designed and built in less than four months, Videopolis has a 5,000-square-foot dance floor and seating for 1,500. Entertainment is provided by live band and videotaped music shown on electronic monitors and projection screens surrounding the dancers.

Celebrating its official birthday on July 17 with a non-stop, 24-hour party, Disneyland attracted more than 77,000 guests and worldwide media attention. Over a 48-hour period, an estimated 22 hours of television coverage and 114 hours of live radio transmission originated at the park. NBC-TV's Today program aired portions for two hours, and satellite uplink capabilities enabled ITV's "Good Morning, Britain" program to televise six hours of coverage from London. Heightening nostalgic memories for many original Disneyland fans was the Main Street Parade led by Christine Vess Graef and Michael Schwartner. As young schoolchildren in 1955, they were warmly greeted by Walt Disney as the park's famous first visitors.



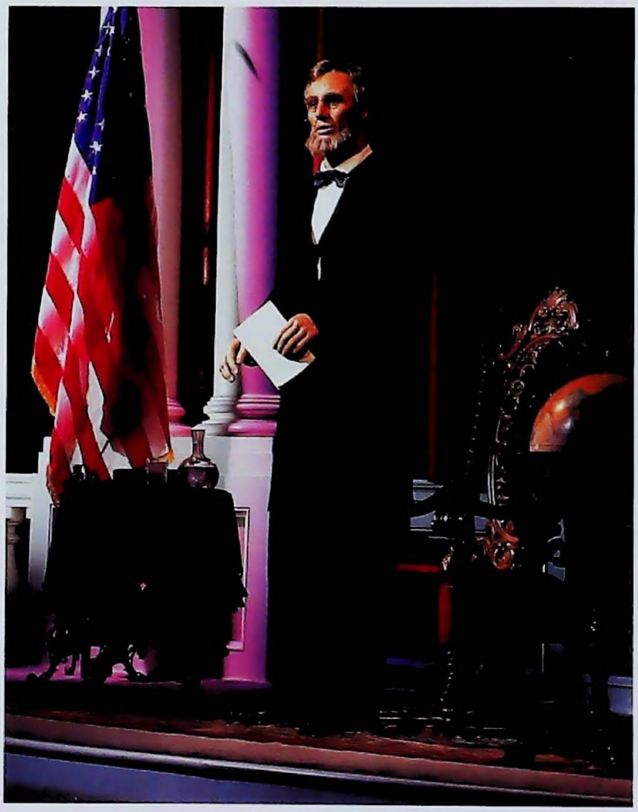
During the 1985 peak summer season, Walt Disney World guests could watch Mickey Mouse perform with dancing Rockettes from Radio City Music Hall at the American Garden Stage at Epcot Center (above) or attend special ticketed events at the Magic Kingdom, including a late-night Country-Western Show headlined by Charlie Daniels. Disneyland's attractions included the all-new Videopolis, a nighttime dance club popular with teenagers (below). Soaring balloons (far left) mark the start of a midnight-to-midnight 30th Birthday Party at Disneyland on July 17th, attracting worldwide media attention.



Another major milestone was reached on August 24th as 3-year-old Brooks Charles Arthur Burr, visiting with his parents from Anchorage, Alaska, became Disneyland's 250 millionth guest. His grand prize winnings included a Cadillac, a lifetime pass to all theme parks, 30,000 free PSA air miles, a week's expense-paid trip to Japan and 30 days of expense-paid stay at a Disneyland hotel or resort complex.

Expanding on its gift program in 1986, Disneyland will offer prizes to every guest, with daily gifts to include a new car, a watch and a roundtrip airline ticket to individuals selected at random.

Exciting new attractions in 1986 include Michael Jackson's 3-D film, "Captain Eo," opening in March at Tomorrowland. Filmmaker George Lucas's "Star Wars" ride, based on aircraft simulator technology, will begin creating vivid sensations of flight for guests at Tomorrowland in November.



Tokyo Disneyland

Tokyo Disneyland celebrated its second anniversary on April 15. Disney representatives included the Board of Directors, which met in Japan for the first time.

Additions to the Japanese park in 1985 included "Magic Journeys," the acclaimed 3-D film originally produced for Epcot Center's Journey into Imagination pavilion, and the Main Street Electrical Parade.

An original attraction scheduled in 1986 is the Cinderella Castle Mystery Tour, a guided walk-through event that features many of Disney's famous villains.

Tokyo Disneyland welcomed its 25 millionth guest in August. During the same month, the park drew more than two million attendees, the highest monthly total in the history of Disney theme parks.

Disneyland's revitalized "Great Moments with Mr. Lincoln" show featured advanced Audio-Animatronics movements, as well as artifacts from the Lincoln era.

With nearly a half-million twinkling lights, the Tokyo Disneyland Electrical Parade made its debut as a popular night-time attraction in 1985. Mickey Mouse and a friendly admirer were part of Tokyo Disneyland's advertising program, and helped keep attendance growing in the park's second full year of operation.

The Walt Disney Studios

Walt Disney Studios has completed the first year of an ambitious plan. The goal is to become a full-service motion picture and television studio — an aggressive competitor in all markets of the entertainment industry.

Phase one of that plan began with recruiting a new executive team. Led by Chairman Jeffrey Katzenberg and President Rich Frank, Walt Disney Studios has attracted more than 60 highly regarded executives to staff both new business as well as expanding existing units. Their mandate: develop, make, market, and distribute a new stream of quality product at reasonable prices.

Toward that end, it has been a productive year. New relationships have been built between Disney and the creative community. The studio now has under contract a range of experienced producers who are serving as its scouts for strong ideas; talented writers who are able to translate those ideas into scripts; gifted

Filmed Entertainment
(In thousands)

	1985	Change	1984	Change	1983
Revenues	$319,986	+ 31%	$244,552	+ 48%	$165,458
Operating income (loss)	33,642	+ 1,396%	2,249	+ 107%	(33,385)
Operating margin	11%		1%		− 20%

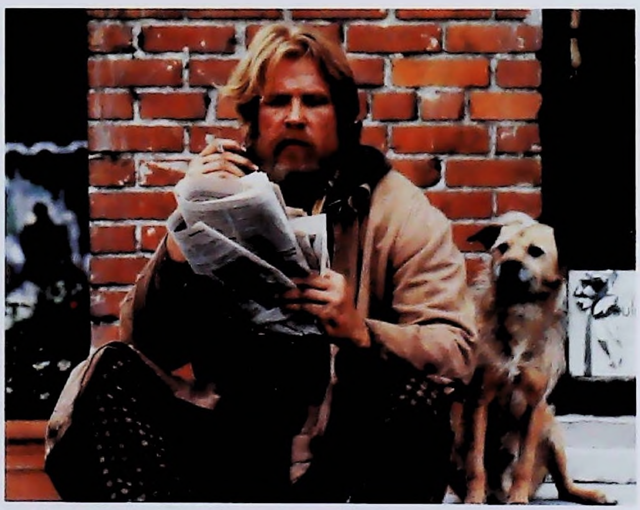
Revenues increased in 1985 due to a strong increase in the subscriber base of The Disney Channel, a re-entry into the pay television market and higher home video cassette sales.

Domestic theatrical releases for 1985, including "Return to Oz", "The Black Cauldron" and "My Science Project", generated lower film rentals than expected. Foreign revenues were down from 1984, due to limited product in release and the adverse effect of the strength of the U.S. dollar as compared to most foreign currencies.

Pay television revenues increased substantially in 1985 because of the licensing of "Splash" and other recent Disney releases to national pay programming services. After 20 months of operations, The Disney Channel achieved profitability early in the second quarter of 1985.

The Company continues to record growth in the home video market, although some leveling is expected by mid-1986. Worldwide revenues of $101 million in 1985 were 46% higher than 1984. Revenues of $69 million in 1984 were 55% higher than 1983 revenues.

Operating income and margins are improving as The Disney Channel becomes more profitable and the theatrical and television markets are expanded. Operating income in 1984 does not include Unusual Charges related to motion picture and television properties (as discussed on page 30).



In "Down and Out in Beverly Hills," Nick Nolte (above) plays the transient who wanders into an upscale community and upsets lifestyles. The Touchstone Films production also stars Bette Midler (right) and Richard Dreyfuss. The Paul Mazursky-directed film will be released in January 1986.

actors, actresses, and directors; and production teams who can channel that talent into film and network television product.

In addition, Walt Disney Studios has moved to establish profitable new ancillary markets and to strengthen its U.S. and foreign distribution capabilities.

Motion Pictures

In features, the eventual goal is to produce 12 to 15 films a year by 1987: three to five live-action family features, a full-length animated film, and eight to ten pictures under the Touchstone label. In addition, the studio will continue to aggressively market its reissues from the Disney library.

This past year, six new features previously committed to production were released, together with reissues of animated classics. In initial domestic release, Disney's spring and summer offerings — "Baby: Secret of the Lost Legend," "My Science Project," "Return to Oz," and the 25th animated feature, "The Black Cauldron" — could not escape the trend of low box-office results prevailing throughout the motion picture industry.

The Walt Disney Studios

Jeffrey Katzenberg
Chairman
The Walt Disney Studios

Richard H. Frank
President
The Walt Disney Studios

But "Pinocchio," Walt Disney's 1940 animated classic, was a happy exception. Re-released during the 1984 Christmas season, "Pinocchio" became the studio's most successful reissue as it set box-office records for one day and for one week, and grossed more than $24 million.

"Fantasia," the animated feature that combines classical music with perhaps the finest examples of Disney artistry, began a concentrated reissue with an all-new digital sound track in 1985. Also re-released for the 1985 Christmas season was "101 Dalmatians," the popular 1961 animated classic.

Animated reissues also performed extremely well overseas, contributing 56% of foreign theatrical revenues.

Among new live-action releases affecting 1986 results, "The Journey of Natty Gann" and "One Magic Christmas" are in the mainstream of Disney tradition. Both movies have earned exceptional praise as family motion pictures with broad contemporary appeal, and box-office results have been respectable.

Entering limited domestic release in September, "The Journey of Natty Gann" stars newcomer Meredith Salenger as a Depression-era teenager who makes a dangerous cross-country trip searching for her father. She is accompanied by a wolf and befriended by a young hobo, played by John Cusack. The film, directed by Jeremy Kagan, entered major theatrical markets early in the new year.

"One Magic Christmas," starring Academy Award-winning actress

Mary Steenburgen, captured not only the praise of critics but the immediate attention of moviegoers, earning almost $8 million in its first ten days. An original movie in the same vein as "Miracle on 34th Street" and "It's a Wonderful Life," the picture tells the story of a little girl's adventure in discovering Santa Claus. Miss Steenburgen plays the role of a disheartened mother who, along with her family, rediscovers the spirit and magic of Christmas. "One Magic Christmas," directed by Phillip Borsos, also stars Harry Dean Stanton as a Christmas angel named Gideon.

The new productions for 1986 begin with the winter release of "Down and Out in Beverly Hills," a Touchstone production. The film stars Richard Dreyfuss and Bette Midler as a wealthy couple, and Nick Nolte as a down-on-his-luck drifter who upsets their comfortable lifestyle. "Down and Out in Beverly Hills" was directed and co-written by Paul Mazursky.

Following in the spring is "Off Beat," another Touchstone production, starring Judge Reinhold and Meg Tilly. Directed by Michael Dinner, "Off Beat" is a comedy that leads a meek library clerk into romance and danger as he impersonates a New York cop.

"Basil of Baker Street" is scheduled for summer distribution as Disney's 26th animated feature. It is the story of a family of mice who live under Sherlock Holmes' quarters in London. The new picture follows the Easter season reissue of the classic animated feature, "Sleeping Beauty."

Films planned for production in 1986 include:

- "The Color of Money," starring Paul Newman as Fast Eddie Felton, a role he first played in "The Hustler" in 1961. Actor Tom Cruise plays the part of a young pool shark trying to make the big time. Martin Scorsese directs.
- "Ruthless People," an adult comedy about a rich man who refuses to pay ransom to the inept kidnappers of his wife. Bette Midler, Danny DeVito and Judge Reinhold star; "Airplane" creators Zucker-Abrahams-Zucker direct.
- "Outrageous Fortune," a comedy about two women in love with, and pursuing across the country, the same two-timing man. Shelley Long will star; Arthur Hiller will direct.
- "Tough Guys," a comedy-adventure, is the story of two paroled convicts who find crime and the world have changed in the 35 years since they were sent up for train robbery. Tentatively cast as the tough guys are Burt Lancaster and Kirk Douglas.

Opposite: Judge Reinhold and Meg Tilly in scenes from "Off Beat," a Touchstone production scheduled for spring 1986 release. The comedy-adventure is about a mild-mannered librarian who impersonates a New York cop.

Above: The animated mouse Basil searches for clues a la Sherlock Holmes in "Basil of Baker Street," now in production for summer 1986.

- "Run," an action film about a man who inadventently incurs the wrath of an entire town and is forced to use his native wit to survive.
- "Splash II," a sequel to Disney's 1984 hit comedy-fantasy in which a businessman meets and falls in love with a mermaid. The new adventure picks up with Madison and Allen in the Mer-Kingdom, and follows them back to Manhattan.
- "Big Business," a classic farce of mistaken identity in which two sets of identical girl twins are mismatched at birth — and find themselves at the same hotel 30 years later.

In addition, production is under way on "Oliver Twist," a full-length animated musical for 1987 in which cats and dogs take the roles of Dickens' characters on New York's Lower East Side.

Distribution

In concert with Disney's expanded motion picture production schedule, Buena Vista, the company's distribution arm, has undergone restructuring and expansion designed to establish a higher profile with theater exhibitors and the public.

In the past, Buena Vista distributed three to five live-action films per year, a new animated feature every four to five years, plus seasonal reissues of animated classics. This distribution system will now accommodate greater diversity and volume.

Academy Award-winning actress Mary Steenburgen (right) stars as the distraught mother whose family rediscovers the joy and spirit of Christmas in the heartwarming new Walt Disney family picture, "One Magic Christmas."

In building 12 to 15 live-action feature productions per year, Disney will become a major supplier, competing with other major studios for the full spectrum of movie audiences. The studio will also accelerate production of animated features to a new film each 18 months and reissue the Disney animated classics on a five-year cycle, rather than every seven years as in the past.

Focusing on Disney's expanded image as well as new approaches to the marketplace is Senior Vice President of Distribution Richard J. Cook, a young but seasoned Disney veteran, and Vice President and General Sales Manager Phil Barlow, formerly of Edwards and Sameric Theaters, who joined Disney after 24 years as one of the country's best known film buyers.

Buena Vista International, the company's foreign distribution organization for both films and television, is also preparing to meet increased release demands.

Under President Harry Archinal, BVI is a long-established leader in its field, recognized as a cost-effective and efficient competitor.

For the first time, BVI focused on strengthening television distribution, making individual feature films from the Disney library available to television networks around the world. In the past, all films were incorporated in Disney anthology series.

More than 100 titles have been sold to Italy's RAI Television and more than 30 films went to Channel 7 in Australia. Arrangements for other significant sales were made in France, England, Japan, Holland, Switzerland and Belgium, with the expectation of accomplishing similar agreements in all major world markets.

Network Television

A turning point for Walt Disney Studios during the past year was its return to network television.

A network presence is crucial for the entire company. Television acts as a marketing and creative catalyst for all our interrelated businesses: each business area is made stronger because television supports and is, in turn, supported by other Disney enterprises.

After an absence of more than two years, Disney's comeback on all three networks includes the new hit situation comedy series of the season; two critically acclaimed Saturday morning animated series; in the new year, the return of Disney to its familiar place for generations of viewers on Sunday evening during prime time; and a new series of network specials.

Top: Bea Arthur, Rue McClanahan, Estelle Getty and Betty White star as "The Golden Girls," a hilarious new Disney hit series appearing on NBC-TV in Saturday night prime time.

Even before it aired, "Golden Girls" was the preseason sensation, with critics predicting it would be the most innovative comedy of the year. When it debuted in September, it also won the hearts of audiences. Its premiere show won first place in the Nielsen ratings with the strongest opening of any new show in years.

The NBC Saturday evening show stars Bea Arthur, Betty White, Rue McClanahan and Estelle Getty, veteran performers in the best ensemble-comedy tradition. Living together in Miami as an ad hoc family, they spend their golden years searching for happiness, smiling through misfortune, coping as single people and using humor to deal with the realities of growing older.

Created by talented comedy writer Susan Harris, who has a track record of expanding the limits of television, and produced by Paul Junger Witt and Tony Thomas, the new show has received well-deserved praise from critics and loyalty from its audience.

Disney hasn't forgotten its young television audience. For the first time, with two new animated shows, the company is now on Saturday morning television.

"The Adventures of the Gummi Bears" on NBC is a comedy about bears with magical powers in medieval times. Animation authority Charles Solomon hailed it as the best animation seen on Saturday morning in a decade.

"The Wuzzles" on CBS is the story of an uncharted island populated by funny hybrid creatures such as Bumblelion, half-bee and half-lion; Eleroo, half-elephant and half-kangaroo; and Rinokey, half-rhino and half-monkey. The landscape of Wuz includes such flauna as the flant, a combination fly and plant.

Perhaps the most visible new Disney show will be the return of an anthology series to its traditional spot on Sunday evening. A successor to the series which spanned four decades, the new program marks an historic reunion for the studio and ABC. Walt Disney's original television program, "Disneyland," was created for ABC in 1954.

For nearly a year, Disney's new team of entertainment executives, together with many of Hollywood's

newest and brightest directors, writers and producers, have been preparing for the debut of "The Disney Sunday Movie."

Representing one of the largest single commitments by a network to a studio, 23 one- and two-hour original movies have been ordered. They will have broad family appeal. In addition to re-establishing a Disney network presence, the series will provide a rich new source of replenishment to our current library.

Beyond the new regular programs, we have another major commitment with NBC for a variety of eight prime time specials, recently launched with an airing of "Dumbo." There will be holiday specials using vintage Disney cartoons, brand-new animated specials with Mickey, Donald and the gang, musical variety shows from our parks and other programs featuring the newest park attractions.

Syndication

In a further expansion of the company into all areas of television, a Domestic Television Division was formed during the year to begin the carefully considered process of opening Disney's vast theatrical-feature and television library for television syndication.

Disney's entrance into syndication is a milestone. It represents a totally new revenue stream for the company and a highly important facet of the full-service motion picture and television company we intend to become.

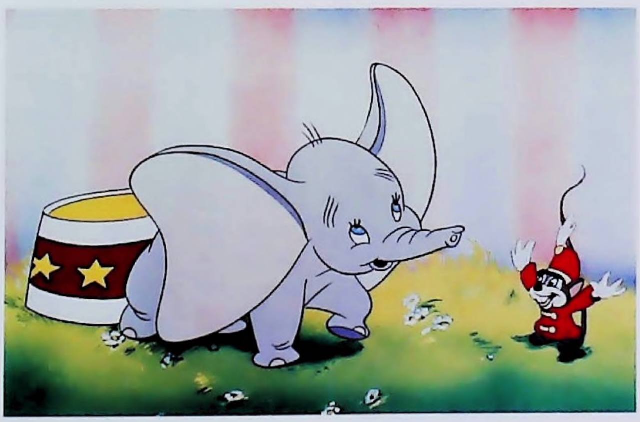
With the exception of "The Mickey Mouse Club," Disney's immense library of 29 seasons of network television programs, cartoons and live-action feature films has never before been released directly to the potentially lucrative television station market.

The Domestic Syndication group's first effort is the offering of two major packages from the studio's library. Both will appeal to broadcasters and audiences because of their broad, family-oriented content.

Marketing efforts began in October 1985, and within a month the first tier of its initial sales effort was completed. "Disney Magic-I" and "Wonderful World of Disney" were sold to television stations representing approximately 20 percent of the country.

Representing magical creatures from medieval times, the six personable Gummi Bears (above) star in Disney's highly acclaimed animated comedy series for children on Saturday morning NBC-TV.

Opposite: two of Walt Disney's greatest films — "Mary Poppins" (top) and the animated feature "Dumbo" — are among pictures offered for syndicated television programming beginning in fall 1986.



"Disney Magic-I" is an impressive collection of Disney feature films. "Wonderful World of Disney" is an anthology of some of Disney's finest and most popular television programming, drawn from the prime time series which ran on each of the three television networks. Both packages are being sold separately and will be available for broadcasting beginning in the fall of 1986.

The motion picture package of 20 features includes such popular Disney releases as "Dumbo," "20,000 Leagues Under the Sea," "Splash," "Never Cry Wolf," "The Absent-Minded Professor" and "Babes in Toyland." Four made-for-television movies are also in the package, including "Zorro" and "The Undergrads," a Disney Channel production starring Art Carney.

The television program package will consist of 178 hours of animated, live-action, frontier/adventure and true-life/nature films originally presented as network shows. From 1954 until 1983, "Wonderful World of Disney" was one of the most consistent and successful series in the history of prime time network television.

Senior Vice President Robert Jacquemin, one of the most respected sales and programming leaders in the industry, created and heads an organization of talented, seasoned executives that will capitalize on this extraordinary syndication opportunity.

The Disney Channel

America's fastest-growing pay-cable television service, The Disney Channel ended fiscal 1985 with 2.3 million subscribers and anticipated growth to 2.5 million subscribers by year-end. Now carried by more than 2,500 cable systems, the Channel also became profitable in January, only 20 months after it began operations in April 1983.

Under new President John F. Cooke, the Channel became an integral part of Walt Disney Motion Pictures and Television and is now positioned to play a stronger role within Walt Disney Studios.

An acknowledged leader in children's programming, the Channel is strengthening its 19-hours-per-day schedule with original productions, plus acquired series, specials and motion pictures having broad appeal for both children and adults.

From the Disney library, the Channel's Summer Animation Festival included "Robin Hood," "Alice in Wonderland" and "The Sword in the Stone." Other features presented included "Splash," "Never Cry Wolf" and "Country."

The newest Channel-produced feature, which premiered in November, is "The Blue Yonder," featuring Art Carney, Peter Coyote and Huckleberry Fox in a back-in-time drama about pioneering aviators. Other original films have included "Lots of Luck" with Annette Funicello, "The Undergrads" with Art Carney, "Love Leads the Way" with Timothy Bottoms, and "The Black Arrow," adapted from Robert Louis Stevenson's adventure classic.

The Channel also introduced the popular new action-adventure

series, "Danger Bay." The series is about a marine veterinarian and his family, who fly on daring rescue missions around the Pacific Northwest coast.

The Channel's quality has been widely recognized. It was nominated in nine categories for best cable television offerings in 1985 by the National Academy of Cable Programming.

Video Division

The new Video Division was formed under Senior Vice President Bill Mechanic in response to expanding opportunities in the home videocassette and pay television markets. With its incomparable library, Disney intends to play a prominent role in the future of pay television and home video — two burgeoning industries.

The new Video Division will distribute entertainment programming worldwide. Products will include material from the Disney library as well as original programming.

On the pay television side, the division moved quickly to license feature films after an absence of two years. Seven Touchstone and Buena Vista films, including "Country," "Never Cry Wolf," "Splash" and "Tex" were sold to Showtime, HBO and other cable outlets.

The new business organization anticipates tremendous growth in "in-home viewing," signaled by booming sales of videocassette recorders and prerecorded cassette programming, as well as expanding pay-cable and pay-per-view availability.

Disney's Home Video unit, gaining an increasing market share, represents a strong part of the new division, with an estimated 200 titles in distribution. A package of 21 Home Video releases for the Christmas season — including "Mary Poppins," "Dumbo," "Robin Hood" and other Disney favorites made up a record shipment of one million cassettes.

During the summer, Home Video's promotion of seven Disney cartoons in the Limited Gold Edition II package scored well in the marketplace. An original Home Video production, "Too Smart for Strangers," featuring Winnie the Pooh with a subtle educational message on the dangers of child abuse, also generated profits.

Walt Disney Studios' Video Division also will be exploring further potential in the pay cable and satellite antenna markets, as well as the prospects of pay-per-view programming for exclusive events, such as concerts, first-run motion pictures and other features.

Above: Growing its market share in the expanding videocassette market, Disney's Home Video unit distributed the popular Limited Gold Edition II package of seven cartoons in 1985.

Opposite: The Disney Channel's newest motion picture, "The Blue Yonder," (top) starring Peter Coyote, presents subscribers with a back-in-time drama about barnstorming aviators. Art Carney and Huckleberry Fox also star in this exclusive drama. "Return to Treasure Island" is the Channel's forthcoming miniseries with Brian Blessed as Long John Silver and Christopher Guard as Jim Hawkins. The episodic saga takes place 10 years after the original "Treasure Island" tale.

Disney Consumer Products

The staying power that has made Mickey Mouse an American institution for 57 years led the way to renewed vitality and business expansion in our diverse consumer products operations.

This year, Mickey's move into upscale, high-fashion clothing swept the country, following a European and American designer trend of blending pop culture with haute couture into witty, whimsical and wearable clothes.

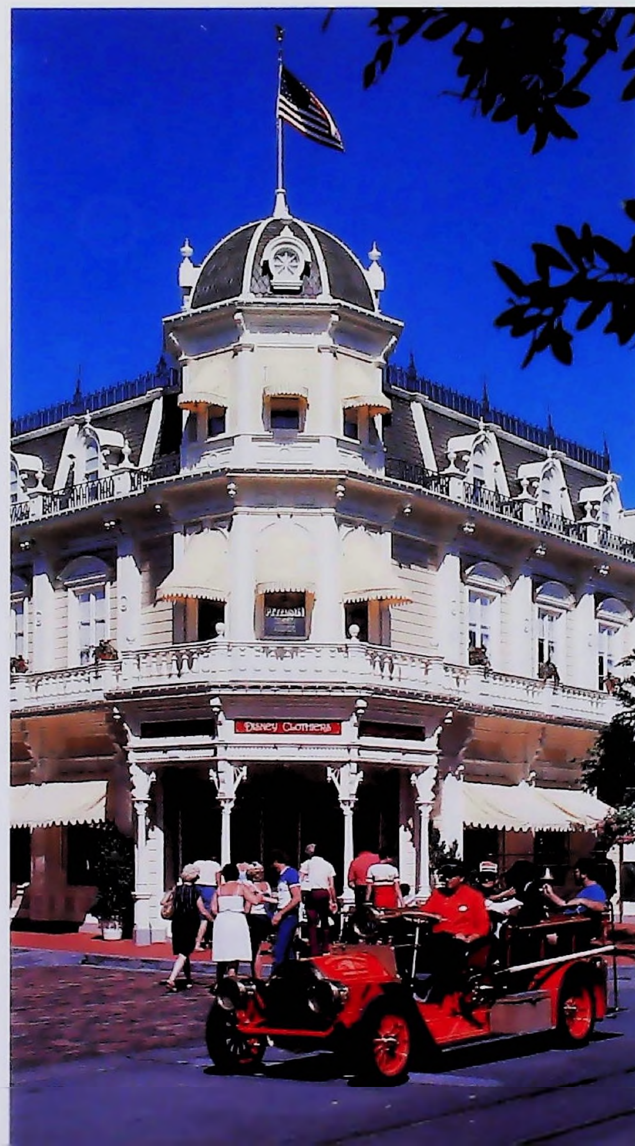
J. G. Hook launched its "Mickey & Co." women's wear collection during the 1984 Christmas season, and more than tripled its early sales projections. This year, "Mickey & Co." expanded into men's and children's lines, now available in most department stores, including Macy's, Neiman Marcus, Saks Fifth Avenue and Bloomingdale's.

Consumer Products
(in thousands)

	1985	Change	1984	Change	1983
Revenues	$122,572	+ 12%	$109,682	– 1%	$110,697
Operating income	56,316	+ 5%	53,863	– 5%	56,882
Operating margin	46%		49%		51%

Revenues and operating income improved in 1985 due primarily to the introduction of Mickey Mouse and other character fashions as well as the sale of promotional premiums to major companies. Foreign revenues remained virtually unchanged from 1984 activity despite the strength of the U.S. dollar in relation to most foreign currencies. Overall revenues in this segment have increased at a compounded annual growth rate of 9% over the past five years.

Operating margins have remained at approximately 50% during the past five years, however, the 1985 margin was effected by the new business activity involving promotional premiums which operates at a lower margin.



Disney Consumer Products offered a growing variety of merchandise, ranging from beautifully rendered wood carvings of Mickey and Minnie, cuddly plush toys and Disney character designer clothes for every occasion. Disneyland's new Main Street shop, Disney Clothiers, offers trendy and casual character wear from licensed European and American manufacturers, along with in-house designs.

Disney Consumer Products

Barton K. Boyd
President
Disney Consumer Products

Other U.S. apparel manufacturers capitalized on the tremendous success of cartoon couture, and Disney characters are gracing fashion knit tops and coordinates, bathing suits, sweaters, jackets, sweatshirts, infants wear, ankle socks and sequined T-shirts.

The magic of Mickey Mouse has carried over to other fashionable product lines. Gibson Greetings has launched a new line of adult Disney character greeting cards. The Applause Company has enjoyed substantial growth through the success of Disney gift products.

While Mickey reigns as the young adult favorite in apparel trends, a new generation of youngsters is being treated to new Disney characters on Saturday morning television — The Wuzzles and the Gummi Bears.

The Wuzzles come from the land of Wuz, where characters are combinations of two animals — such as Butterbear, half-butterfly, half-bear; Bumblelion, half-bumblebee, half-lion; and Eleroo, half-elephant, half-kangaroo.

The Wuzzles merchandise sales are aggressively led by Hasbro, whose well-designed line of plush toy and book combinations were

supported by significant television advertising. More than 50 other manufacturers produced Wuzzles merchandise, including Hallmark Cards (cards and gift wrap), Random House (books) and Dobie (children's apparel).

With a similar strong array of licensees, the Gummi Bears merchandise program was planned for a limited introduction in late 1985 with a full program to follow in early 1986. Fisher-Price, the strongest brand name in preschool toys, has designed an extensive line of plush and toys backed by a major advertising campaign.

The six Gummi Bears, each with a carefully-defined personality, are Zummi, an amateur Merlin whose spells invariably backfire; Gruffi, the fearless, self-appointed leader; Tummi, a kind-hearted gentle giant; Cubbi, a scrappy adventurer full of mischief; Grammi, who mixes the Gummiberry juice with the magic elixir that makes Gummies bounce; and Sunni, a precocious teenager.

Retail Merchandising at Walt Disney World and Disneyland, a part of theme park operations, closed out the best year in its history, benefiting from expanded character merchandise exposure and Disneyland's 30th anniversary program.

Clockwise from above: plush versions of Gummi Bears, new Disney characters that also star in their own NBC-TV animated series; an exquisite "Snow White and the Seven Dwarfs" collectible in hand-painted porcelain from Laurenz; the Walt Disney Family Edition of Trivial Pursuit; and a sampling of the record number of publications introduced in 1985.

Publications released two new monthly magazines, WINNIE in France and a Chinese language version of MICKEY MOUSE in Hong Kong. Domestic sales of the Bantam supermarket FUN-TO-LEARN set reached 20 million books. A new coordinated publishing program was established to strengthen our business in Latin America, and new publishers are now broadening Disney presence in Australia, England and Mexico. A record number of new Disney books were released in both European and U.S. markets during 1985.

New projects introduced during 1985 included a second supermarket continuity set called FUN-TO-READ, a 26-volume direct mail set from

Italy entitled DISNEY'S ADVENTURES IN NATURE, and a 30-volume direct mail set in the U.S. called DISNEY'S RHYMING READERS. In addition, books, magazines and activity books based on the Gummi Bears and the Wuzzles are being released.

Maintaining its leadership in children's records and tapes, the Records and Music Publishing Division was awarded an RIAA certified platinum album (representing one million sale units), two gold albums (a half-million units) and four gold singles (one million sale units). "Mickey Mouse Disco" also became the first children's album to receive the multi-platinum award, signifying more than two million sales.

In France, Disney received both a gold album (100,000 units) and a gold single (200,000) for "Douchka," a debut album by the new French pop singer.

Popular new Disney products for young audiences included "The Disney Discovery Series," "The Black Cauldron" and "The Wuzzles." As in the past, non-Disney offerings made a significant contribution to overall revenues, with records and tapes related to Hallmark's hit property, "Rainbow Brite," accounting for 1.9 million sale units. Disney also distributed "The Story of the Goonies," from Steven Spielberg's movie, and "Voltron," the popular toy property.

Expanded distribution of toys designed specifically for the market included a four-story gift box and a special product line for Fisher-Price Toys.

Direct mail also took an important step towards product diversification and expansion by introducing a complete line of Disney merchandise in the new "Walt Disney Family Gift Catalog."

In 1986, Record Division products included the new Disney animated characters, Gummi Bears and Fluppy Dogs, and additional titles in the "Disney Discovery Series."

The Educational Media Company's domestic film and video sales increased by more than 10% in filmstrips and by 16% in multimedia kits. Releases in 1985 won 29 national awards.

Educational Media produced films on the difficult subjects of teenage suicide and teen sexual abuse. A filmstrip series included use of the characters in "Good Citizenship with Winnie the Pooh."

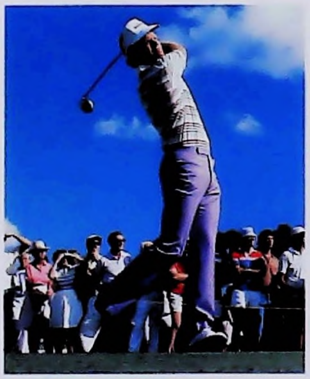
In association with Epcot Center participants, Educational Media has developed information on topics such as computer ethics, economic concepts and energy. The Epcot Teachers Center, designed to help educators explore the themes presented in Future World, has attracted more than 60,000 teachers in two years.

Arvida Disney Corporation

Expanded by Arvida Disney Corporation resources, the community development segment made significant contributions to Disney's overall record revenues and profits in fiscal 1985. In addition, Arvida Disney forged new synergism among business units and developed strategies for the long-range development of Disney real estate values.

Major financial benefits were provided by the Florida-based Arvida Corporation, which achieved record sales and profits in its first full year as an Arvida Disney business entity. Arvida, one of the nation's premier resort and community developers, has major resort and master-planned communities under way in three states.

The Disney Development Company, staffed by senior specialists from both Disney and Arvida, focused new planning skills on Disney real estate developments, concentrating primarily on Walt Disney World.



Community Development
(In thousands)

	1985	Change	1984 (Nine months)
Revenues	$315,354	+ 54%	$204,384
Operating income	62,451	+ 48%	42,226
Operating margin	20%		21%

Revenues in this segment are derived from Arvida Corporation, acquired in a merger transaction accounted for on a pooling of interests basis effective January 1, 1984. They include residential housing sales, land and property sales and resort and other activities.

Residential housing sales increased to $121 million from $53 million in 1984. Unit closings were up 35% as was the average revenue per unit, due in part to sales of oceanfront condominiums at The Addison in Boca Raton, Florida.

Land and property sales totalled $115 million in 1985, up from $90 million in 1984. Revenues and operating income are significantly influenced by the nature of major land and property transactions as well as the timing of the closing and the qualifications of such transactions for revenue recognition. These transactions occur at varying times throughout the year and may affect the comparability between interim periods from year to year. In 1985, revenues and operating results were favorably influenced by sales of several commercial sites and joint-venture interests in southern Florida.

Resort and other activities operate primarily on a break-even basis and provide support for other business units within the segment. Revenues were $79 million in 1985 up from $61 million in 1984. Gains from the sale of Arvida's resort management and mortgage subsidiaries are included at $5 and $9 million in 1985 and 1984, respectively.

The planners conducted site-location studies for planned additions to Walt Disney World, including the 100-acre Disney-MGM Studio Tour complex, and several new hotel projects. Site-selection work also was contributed for the proposed European Disneyland project to be located in either France or Spain.

Disney Development devoted major efforts to a master plan of future recreational, business and residential developments at Walt Disney World, where only 4,000 of 28,000 total acres are currently in use. Guided by Walt Disney's original concepts of a "community of tomorrow," the planning team also explored ideas with a group of America's best-known "futurists" — including urban developer James W. Rouse and "Megatrends" author John Naisbitt.

The planners found unanimous support for Walt Disney's dream that the Florida resort should be developed as a prototype community in which people can live, work and play. Specific developments proceeding by stages over the next quarter-century should incorporate Disney strengths in entertainment, creativeness and communications.

The Arvida Corporation, buoyed by a sound economy and increased demand from housing, expanded its planned community developments in Florida, Georgia and California.

Arvida also introduced its largest multi-faceted residential, commercial and industrial development, the

10,000-acre Weston community, located west of Fort Lauderdale. In a festive opening in May 1985 of the "new town" of the future, an estimated 40,000 visitors and homebuyers turned out to make Weston an instant hit. Arvida sold available models, along with an entire neighborhood of unbuilt homes and lots, during a single weekend. Weston is expected to become a fully developed town of 60,000 residents within 25 years.

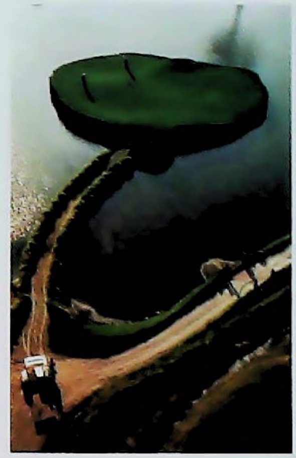
In Boca Raton, its corporate headquarters, Arvida completed the sale of equity memberships in golf, tennis and other recreational facilities to homeowners of the Boca West community, and began development of a new 1,000-acre residential community.

Arvida expanded its Florida commercial and industrial division, launching construction of major office parks, hotels and specialty retail centers in key urban areas. Another business unit, Arvida Realty Sales, expanded brokerage activities to six cities.

In Georgia, strong consumer demand for housing led to major expansion in each of Arvida's three planned communities in suburban Atlanta. It was Arvida's best sales year in that area.

And in California, Arvida continued development of its 5,000-acre Coto de Caza resort and residential property, commencing construction of a championship golf course designed by Robert Trent Jones, Jr. Future promotions of Coto de Caza's resort attractions, including the Vic Braden Tennis College, will include tie-in trips for visitors to nearby Disneyland.

In other Community Development activities, Arvida Disney Financial Services expanded its Miami-based operations by purchasing the Florida offices of a national mortgage company. The new Arvida Mortgage Company is servicing $700 million in mortgages and providing residential and income property financing for affiliated Disney groups and other builders.



Arvida's master planned resorts and residential communities are famous for their leisure lifestyles and great outdoor recreation.

Above: Homes at Arvida's Sawgrass development at Ponte Vedra, Fla., and the famous 17th hole of the PGA Tour's Tournament Players Club® at Sawgrass.

Below left: Disney characters on hand for the opening of Arvida's 10,000-acre Weston residential community near Fort Lauderdale.

Opposite: Pro golfer Johnny Miller tees off at Arvida's Boca West course.

ARVIDA DISNEY

Charles E. Cobb, Jr.
Chairman and
Chief Executive Officer
Arvida Disney Corporation

Financial Review

(In thousands, except per share data)

Operations

Revenues and Earnings

The Company recorded revenues in excess of $2 billion in 1985 for the first time in its history, representing a 22% increase from 1984. Revenues have increased during the last five years at a compounded annual growth rate of 19%. Net income also increased to a record high of $173.5 million in 1985, an increase of 77% from $97.8 million a year ago. Earnings per share increased to $5.15 compared to $2.73 in 1984.

	1985	Change	1984	Change	1983
Revenues	$2,015,429	+ 22%	$1,655,977	+ 27%	$1,307,357
Operating income	418,796	+ 44%	291,033	+ 32%	220,375
Net income	173,491	+ 77%	97,844	+ 5%	93,160
Per share	$5.15		$2.73		$2.70

The record performance for the year was due to significant improvements in the theme park operations at both Disneyland and Walt Disney World and a dramatic turnaround in the filmed entertainment segment. Revenues and operating income also benefited by a full year's contribution from the Arvida Disney community development group, acquired effective January 1, 1984. Operating results and management's financial analysis of operations are discussed by business segment in the forepart of this report.

The operating profit margin was 21% in 1985, a significant improvement from 18% in 1984 and 17% in 1983. This trend is the direct result of management's continuing efforts to optimize revenues and to reduce costs.

Net income for 1984 was impacted by unusual charges and the cumulative effect of a change in accounting to include previously deferred investment tax credits. Before the unusual charges and change in accounting, net income in 1984 was $107.8 million or $3.01 per share.

Corporate Expenses

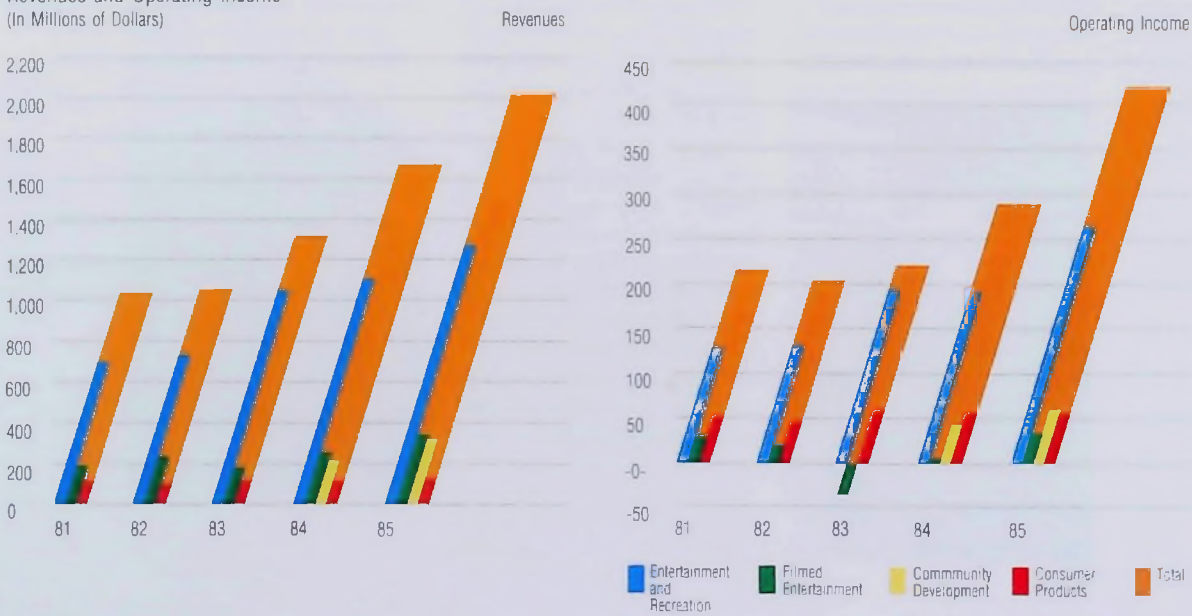
	1985	Change	1984	Change	1983
General and administrative	$49,874	– 16%	$59,570	+ 68%	$35,554
Percent of revenues	2%		4%		3%

Corporate general and administrative expenses decreased by 16% to approximately $50 million in 1985 principally due to nonrecurring expenses of almost $20 million in 1984 consisting primarily of costs associated with the Arvida acquisition, a terminated acquisition and changes in executive management.

	1985	Change	1984	Change	1983
Design projects abandoned	$7,387	+ 5%	$7,032	– 4%	$7,295
Percent of revenues	0.4%		0.4%		0.6%

On a quarterly basis, management evaluates projects in the concept and design stages which have been in progress for varying periods of time. Those which are determined to have no future use are abandoned and charged to expense. In addition, management allocates resources to research and development of new technological advances for theme park attractions, the costs of which are expensed currently as abandonments.

Revenues and Operating Income
(In Millions of Dollars)



Consolidated Statement of Income

(In thousands, except per share data)

Year ended September 30	1985	1984	1983
Revenues			
Entertainment and recreation	$1,257,517	$1,097,359	$1,031,202
Filmed entertainment	319,986	244,552	165,458
Community development	315,354	204,384	
Consumer products	122,572	109,682	110,697
	2,015,429	1,655,977	1,307,357
Costs and Expenses			
Entertainment and recreation	991,130	904,664	834,324
Filmed entertainment	286,344	242,303	198,843
Community development	252,903	162,158	
Consumer products	66,256	55,819	53,815
	1,596,633	1,364,944	1,086,982
Income (Loss) Before Corporate Expenses and Unusual Charges			
Entertainment and recreation	266,387	192,695	196,878
Filmed entertainment	33,642	2,249	(33,385)
Community development	62,451	42,226	
Consumer products	56,316	53,863	56,882
	418,796	291,033	220,375
Corporate Expenses			
General and administrative	49,874	59,570	35,554
Design projects abandoned	7,387	7,032	7,295
Interest — net	51,644	41,738	14,066
	108,905	108,340	56,915
Income Before Unusual Charges, Taxes on Income and Accounting Change	309,891	182,693	163,460
Unusual charges		165,960	
Income Before Taxes on Income and Accounting Change	309,891	16,733	163,460
Taxes on income (benefit)	136,400	(5,000)	70,300
Income Before Accounting Change	173,491	21,733	93,160
Cumulative effect of change in accounting for investment tax credits		76,111	
Net Income	$ 173,491	$ 97,844	$ 93,160
Earnings per Share			
Income before accounting change	$5.15	$0.61	$2.70
Cumulative effect of change in accounting for investment tax credits		2.12	
	$5.15	$2.73	$2.70
Average number of common and common equivalent shares outstanding	33,712	35,849	34,481

	1985	Change	1984	Change	1983
Interest expense — net	$51,644	+ 24%	$41,738	+ 197%	$14,066
Average cost of borrowings	10.7%		12.0%		10.4%

The Company incurred interest costs of $87.6 million in 1985 resulting from indebtedness averaging $817 million, excluding borrowings from Silver Screen II. The average interest rate of these borrowings at September 30, 1985 was 9.0%. Of the 1985 interest cost, $31.6 million was capitalized to qualifying assets. Total interest costs incurred in 1984 and 1983 were $75.8 and $43.3 million, respectively, of which $32.1 and $25.4 million were capitalized.

As interest costs fell during 1985, the Company fixed rates on $295 million of new borrowings. Interest rates were fixed on 55% of total borrowings at September 30, 1985 as compared to 29% at September 30, 1984.

Unusual Charges

As a result of management's assessment involving evaluation of certain Company assets and redefined corporate strategies, the Company recorded unusual charges of approximately $166 million in the fourth quarter of fiscal 1984. The charges included a $112 million provision for write-downs to estimated net realizable values for motion picture and television product, $40 million for abandonment of certain projects in conceptual design and development and $14 million for estimated costs of other restructuring measures.

Taxes on Income (Benefit) and Change in Accounting

	1985	1984	1983
Taxes on income (benefit)	$136,400	$(5,000)	$70,300
Effective income tax rate	44%	(30%)	43%

The difference between the U.S. federal income tax rate of 46% and the Company's effective income tax rate is partly due to benefits received from investment tax credits. In 1984, the Company changed its accounting for investment tax credits from the deferral method to the flow-through method to conform to predominant industry practice. The change resulted in the realization of previously deferred tax credits which increased net income by $76 million or $2.12 per share in 1984. The effective income tax rate in 1984 before the unusual charges was 41% reflecting tax benefits realizable from the Arvida operations.

Financial Position

Assets

Total assets of $2.9 billion reflect a 16% compounded annual growth rate over the past five years. Assets by business segment were:

	1985	Change	1984	Change	1983
Entertainment and recreation	$2,087,539		$2,012,553		$2,018,787
Filmed entertainment	299,061		212,871		200,195
Community development	396,002		351,952		
Consumer products	15,337		17,458		17,387
Corporate	99,346		144,609		144,826
Total assets	2,897,285	+ 6%	2,739,443	+ 15%	2,381,195

The increase in total assets during the past five years is represented primarily by the investment in Epcot Center and Arvida real estate inventories.

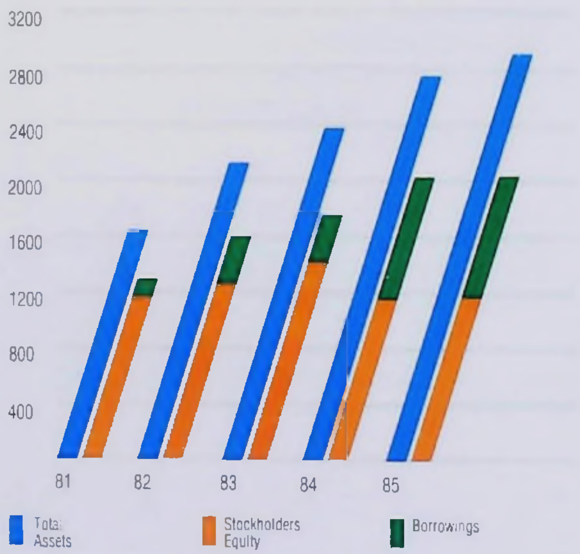
Liabilities and Stockholders Equity

For 1985, borrowings decreased 10% to $773 million, before non-interest bearing loans from Silver Screen II (described below).

	1985	Change	1984	Change	1983
Borrowings	$823,051	– 5%	$861,909	+ 144%	$352,575
Percent of total assets	28%		31%		15%

The Company has a total of $1.15 billion available through lines of credit through 1988. All available lines of credit are for general corporate purposes. The Company has refinanced its 8.6% yen term loan to 7.3%, with the $50 million outstanding at

Total Assets, Stockholders Equity and Borrowings
(In Millions of Dollars)



Consolidated Balance Sheet

(In thousands)

September 30	1985	1984
Assets		
Cash	$ 38,730	$ 35,346
Accounts and notes receivable	240,781	172,762
Taxes on income refundable		60,000
Merchandise inventories	84,780	83,467
Film production costs	182,089	102,462
Real estate inventories	220,826	229,424
Entertainment attractions and property, at cost		
Attractions, buildings and equipment	2,531,193	2,413,985
Accumulated depreciation	(702,034)	(600,156)
	1,829,159	1,813,829
Projects in progress	144,207	94,710
Land	28,325	28,807
	2,001,691	1,937,346
Other assets	128,388	118,636
	$2,897,285	$2,739,443
Liabilities and Stockholders Equity		
Accounts payable, payroll and other accrued liabilities	$ 270,008	$ 239,992
Taxes on income payable	59,026	24,145
Borrowings	823,051	861,909
Unearned deposits and advances	171,909	178,907
Deferred taxes on income	388,403	279,005
Commitments and contingencies		
Stockholders equity		
Preferred shares, no par		
Authorized — 5,000 shares, none issued		
Common shares, no par		
Authorized — 75,000 shares		
Issued and outstanding — 32,344 and 33,729 shares	255,698	359,988
Retained earnings	929,190	795,497
	1,184,888	1,155,485
	$2,897,285	$2,739,443

September 30, 1985 due in equal installments through 1995. The Company also has converted certain Eurodollar and ECU notes totalling $112 million into yen obligations at lower interest rates.

The Company expects to receive as much as $170 million ($58 million received by September 30, 1985) in non-interest bearing loans from Silver Screen II, an unrelated limited partnership which completed a public offering in 1985. The proceeds will be used to finance the production costs of the Company's theatrical films, subject to certain limitations, until the full amount of the funding has been utilized.

The ratio of debt to total capitalization (stockholders equity plus borrowings) was 41% at September 30, 1985 compared to 43% and 20% at September 30, 1984 and 1983, respectively.

	1985	Change	1984	Change	1983
Stockholders equity	$1,184,888	+ 3%	$1,155,485	− 17%	$1,400,528
Per share	$36.63	+ 7%	$34.26	− 16%	$40.58
Percent of total assets	41%		42%		59%

The net change in stockholders equity in 1985 has been affected by the Company's stock repurchase program, approved by the Board of Directors in November, 1984, under which the Company may purchase, from time to time, up to 3.5 million shares of its outstanding common stock. Through September 30, 1985, 1.6 million shares of common stock had been repurchased at an average price per share of $73.26. The decrease in stockholders equity in 1984 is attributable to the repurchase of 4.2 million common shares from Reliance Insurance Company for $70.83 per share plus estimated out-of-pocket expenses incurred by Reliance relating to its proposed tender offer.

Return on stockholders equity and total capital increased to 15% and 9%, respectively, in 1985. A primary corporate goal is to increase capital productivity by improved asset management.

Changes in Financial Position

Cash Provided by Operations

The Company's cash provided by operations is substantially greater than net income due primarily to large noncash charges to income such as depreciation and amortization. Cash provided by operations increased by 28% to $531 million in 1985 and at a compounded annual growth rate of 26% over the last five years.

	1985	Change	1984	Change	1983
Cash provided by operations	$531,302	+ 28%	$414,036	+ 23%	$337,356

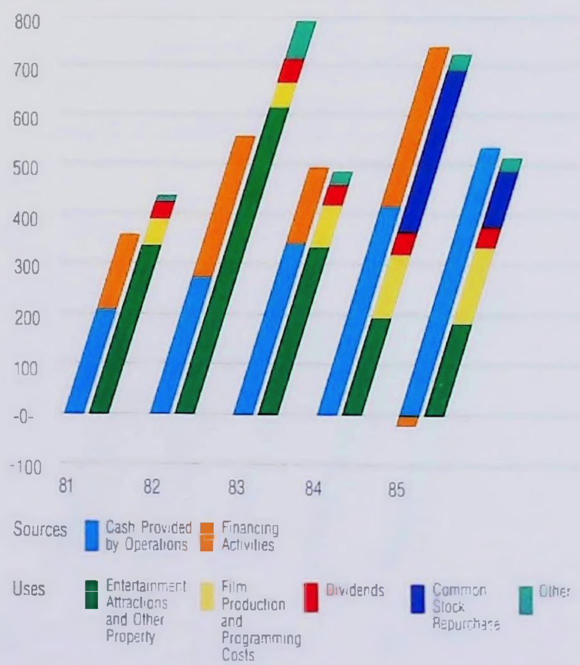
Cash provided by operations was used to cover investing and capital requirements of $500 million and to reduce borrowings by $31 million.

Investing Activities

While the level of spending may be less than in previous years, the Company continues to invest in the future through its capital improvements program. Investment in the Seas Pavilion at Epcot Center, scheduled to open in January, 1986, represented the most significant expenditure in entertainment attractions for 1985.

The Company's new management is in the midst of a three-year program to significantly increase its film production levels. Almost

Principal Sources and Uses of Cash
(In Millions of Dollars)



Consolidated Statement of Changes in Financial Position

(in thousands)

Year ended September 30	1985	1984	1983
*Cash provided by operations before taxes on income**	$ 463,423	$ 364,024	$ 308,369
Taxes received on income, net	67,879	50,012	28,987
Cash provided by operations	531,302	414,036	337,356
Investing activities			
Entertainment attractions and property, net	184,870	194,142	333,738
Film production and programming costs	149,945	127,595	83,750
Funding of retirement plans		24,338	
Other	20,713	8,542	26,019
	355,528	354,617	443,507
Capital transactions			
Cash dividends	39,798	40,941	41,100
Repurchase of common stock	114,360	327,679	
Exercise of stock options	(10,070)	(3,918)	(6,441)
Common stock offering			(70,883)
	144,088	364,702	(36,224)
Financing activities			
Borrowings	341,951	421,119	137,500
Reduction of borrowings	(373,098)	(126,593)	(99,925)
Other	2,845	14,809	36,755
	(28,302)	309,335	74,330
Increase in cash	3,384	4,052	4,403
Cash, beginning of year	35,346	31,294	13,652
Cash, end of year	$ 38,730	$ 35,346	$ 18,055

* The difference between income before taxes on income and accounting change as shown on the Consolidated Statement of Income and cash provided by operations before taxes on income is explained as follows:

	1985	1984	1983
Income before taxes on income and accounting change	$ 309,891	$ 16,733	$ 163,460
Charges to income not requiring cash outlays:			
Depreciation	112,830	106,607	90,184
Amortization of film production and programming costs	69,209	54,134	65,575
Unusual charges		152,760	
Other	16,010	13,860	15,526
Changes in:			
Accounts and notes receivable	(68,019)	(15,507)	(25,863)
Merchandise inventories	(1,313)	(2,774)	(11,228)
Real estate inventories	8,598	6,465	
Accounts payable, payroll and other accrued liabilities	29,143	30,925	13,294
Other	(12,926)	821	(2,579)
	153,532	347,291	144,909
Cash provided by operations before taxes on income	$ 463,423	$ 364,024	$ 308,369

$150 million has been invested in theatrical and television production and The Disney Channel programming in 1985. Such levels of expenditures are expected to increase as new properties are made ready for production.

	1985	Change	1984	Change	1983
Additions to entertainment attractions and other property	$184,870	+ 2%	$182,051	− 37%	$291,202
Additions to film production and programming costs	149,945	+ 17%	127,936	+ 51%	84,518

The Company currently anticipates that expenditures during fiscal 1986 will approximate $180 million for entertainment attractions and other property, and $215 million for film production and programming.

Management reviews the Company's capital program at least quarterly and revises the anticipated capital additions for the fiscal year as appropriate. The Company plans to finance future theme park attractions and other development projects with joint venture partners whenever possible, thereby reducing future net capital expenditures.

Capital Transactions

The Company's dividend rate continued at $1.20 per share in 1985 while cash flow was reinvested in growth businesses. The Company will continue this investment strategy to finance expected profit growth through the 1980's. If management is successful, stockholders should continue to profit through stock appreciation taxed at advantageous capital gain rates, rather than through higher dividends taxed at ordinary rates.

	1985	Change	1984	Change	1983
Cash dividends	$39,798	− 3%	$40,941	—	$41,100
Percent of net income	23%		42%		44%
Per share	$1.20		$1.20		$1.20

The Company's stock price has grown at a compounded annual rate of 16% over the past five years and the total market value of the Company's stock at September 30, 1985 was $2.7 billion. The range of the Company's stock prices by quarter for 1985 and 1984 was:

	1985		1984	
Quarter ended	High	Low	High	Low
December	61-1/8	53-5/8	64	47-1/4
March	81-1/8	59-1/4	68	48-3/8
June	95	74-3/8	68-1/2	46-1/4
September	93-7/8	81-7/8	64-1/2	45-1/4

The repurchase of common stock is discussed in conjunction with stockholders equity on page 32.

Financing Activities

In October, 1984, the Company received the proceeds from the $150 million Eurodollar notes at 12.50% authorized for issuance in fiscal 1984. The notes will mature on October 1, 1987 and are not redeemable prior to maturity. The Company issued in July, 1985, 80 million ECU notes at 9.125% concurrently with a forward exchange agreement for approximately 15 billion yen, or $62 million, at 6.565%. Maturities of these borrowings do not commence until 1990. In addition, the Company refinanced its 12 billion yen term loan, or $50 million, extending the maturity through 1995 and lowering the interest rate to 7.30%. Borrowings of $58 million from Silver Screen II are non-interest bearing and are due in varying amounts over a period not exceeding fifteen years. The Company also entered into a $36 million borrowing with a financial institution to be repaid over a twelve year period at an effective interest rate of 9.32%. The balance of the new borrowings resulted from increases in commercial paper issuances.

The Company has hedged borrowings involving Japanese yen by designating the royalty revenues from Tokyo Disneyland and other Japanese royalty sources to service interest and principal payments for such indebtedness, thus offsetting the effects of fluctuations in the exchange rate.

Inflation and Changing Prices

There is no universally accepted method for measuring the effect of inflation in financial statements. The primary financial statements traditionally reflect the historic cost rather than the current cost of assets required to maintain an enterprise's productive capability.

When the historical cost financial information is adjusted for changes that have occurred in the general purchasing power of the dollar (measured by the Consumer Price Index), net income is often significantly reduced from net income reported in the primary financial statements due to additional theoretical depreciation. The Company believes that cash provided by operations adjusted for changing prices provides a more meaningful insight into the impact of inflation because it excludes noncash charges such as depreciation. Over the last five years, cash provided by operations has increased at a compounded annual growth rate of 20% when expressed in average 1985 dollars. This real growth compares favorably with the compounded annual growth rate of 26% as reflected in the primary financial statements.

Elsewhere in this report, the Company discusses its continuing program of investing in the future through its capital improvements program, which is intended to maintain and/or increase its productive capability. When adjusted for the effects of changing prices, the Company has invested approximately $2.3 billion in productive assets over the last five years compared to approximately $2.1 billion as reflected in the primary financial statements.

Presentation of the Financial Information

Management's explanation and interpretation of the Company's overall operating results and financial position, together with the basic financial statements, as presented in this section, should be read in conjunction with the entire report. For readers desiring additional detailed financial information, the notes to consolidated financial statements, although an integral part of the basic financial statements, are included in a separate section of this report (see Index on page 36).

Management is responsible for the preparation of the Company's consolidated financial statements and related information appearing in this annual report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the Company's financial position and results of operations in conformity with generally accepted accounting principles. Management has also included in the Company's financial statements amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

The independent accountants examine the Company's consolidated financial statements in accordance with generally accepted auditing standards and provide an objective, independent review of the fairness of reported operating results and financial position. The independent accountants' report is set forth on page 36.

The Board of Directors of the Company has an Audit Review Committee composed of four nonmanagement Directors. The Committee meets periodically with financial management, the internal auditors and the independent accountants to review accounting, control, auditing and financial reporting matters.

Stock Transfer Agent
Walt Disney Productions

Registrar
Walt Disney Productions

Stock Exchanges
The Common Stock of the Company is listed for trading on the New York (principal market), Pacific, Swiss and Tokyo Stock Exchanges. Certain debt securities of the Company are listed on The Stock Exchange in London and the Luxembourg Stock Exchange.

Independent Accountants
Price Waterhouse, Los Angeles

Other Information
A copy of the Company's annual report to the Securities and Exchange Commission (Form 10-K) will be furnished without charge to any stockholder upon written request to Shareholder Services, Walt Disney productions, P.O. Box 10099, Burbank, California 91510-0099.

Walt Disney Productions makes available to its stockholders a Dividend Reinvestment Plan. Those wishing a pamphlet about the plan should write to Shareholder Services, Walt Disney Productions, P.O. Box 10099, Burbank, California 91510-0099.

Index to Financial Statements and Supplemental Information

The consolidated financial statements of Walt Disney Productions and Subsidiaries have been included on the following pages of this Annual Report:

Additional information, although not a required part of the basic financial statements, may be read in conjunction with the financial statements and appears in the following supplemental section of this Annual Report:

Report of Independent Accountants

To the Board of Directors and Stockholders
of Walt Disney Productions

In our opinion, the consolidated financial statements listed in the index and appearing on pages 29, 31, 33 and 37 through 43, present fairly the financial position of Walt Disney Productions and its subsidiaries at September 30, 1985 and 1984, and the results of their operations and the changes in their financial position for each of the three years in the period ended September 30, 1985, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, with which we concur, in the method of accounting for investment tax credits made as of October 1, 1983 as described in Note 12 to the consolidated financial statements. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Los Angeles, California
November 18, 1985

Notes to Consolidated Financial Statements

(To be read in conjunction with the consolidated financial statements on pages 29, 31 and 33)

1 *Description of the Business and Summary of Significant Accounting Policies*

WALT DISNEY PRODUCTIONS and its subsidiaries (the Company) is a diversified international company engaged in family entertainment and community development with operations in four business segments; financial information regarding business segments appears on the Consolidated Statement of Income and in Note 9.

ENTERTAINMENT AND RECREATION
The Company operates the Disneyland theme park in California and the Walt Disney World destination resort in Florida. In addition to the Magic Kingdom and Epcot Center theme parks, the Walt Disney World complex includes three hotels, camping, golfing and other recreational facilities, a shopping village, a conference center and other lodging accommodations. The Company receives royalties on revenues generated by the Tokyo Disneyland theme park in Tokyo, Japan, which is owned and operated by an unrelated Japanese corporation.

FILMED ENTERTAINMENT
The Company produces and acquires live action and animated motion pictures for the theatrical, television and home video markets. The Company distributes its filmed product through its own distribution and marketing companies in the United States and through foreign subsidiaries in certain countries and other distribution companies throughout the rest of the world. The Company provides programming for, and operates, The Disney Channel, a pay television programming service.

COMMUNITY DEVELOPMENT
The Company develops comprehensively planned resort and primary home communities. The Company also develops commercial and industrial properties within or near many of its planned communities and provides general real estate brokerage, financing and resort and property management services. These activities are conducted through the Arvida Disney subsidiaries of the Company (Note 10).

CONSUMER PRODUCTS
The Company licenses the name Walt Disney, its characters, its literary properties and its songs and music to various manufacturers, retailers, printers and publishers. The Company also produces and distributes phonograph records and 16mm prints of product developed on educational subjects. These activities are conducted through the character merchandising and publications, records and music publishing, and educational media divisions and subsidiaries of the Company.

The following summary of the Company's significant accounting policies is presented as an integral part of the consolidated financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries, all wholly owned.

Revenue Recognition

Generally, revenues are recorded when the earnings process is substantially complete and goods have been delivered or services performed. Revenues from participant/sponsors at the theme parks are recorded over the period of the applicable agreements commencing with the opening of the attraction.

Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited domestically and when revenues are reported from foreign distributors; revenues from television licensing agreements are recorded when the film is available for telecasting by the licensee and when certain other conditions are met.

Profit is recognized in full on sales of real estate when collectibility of the sales price is reasonably assured and the earnings process is virtually complete; if the sale does not meet requirements for revenue recognition, profit is deferred until such requirements are met. Profit is recognized on residential unit sales at the time of closing.

Merchandise Inventories

Costs of merchandise, materials and supplies inventories are generally determined on the moving average basis and the retail method and are stated at the lower of cost or market.

Film Production Costs and Amortization

Costs of completed theatrical and commercial television film productions (negative costs), together with applicable capitalized exploitation costs, are amortized by charges to income in the proportion that gross revenues recognized by the Company during the year for each production bears to its estimated total gross revenues to be received. Estimates of total gross revenues are reviewed periodically and amortization is adjusted accordingly. If the total of unamortized negative cost and estimated expenses exceeds the estimated total gross revenues to be received by the Company, the carrying value of the film is adjusted to expected net realizable value. Programming costs for The Disney Channel are amortized on a straight-line basis over the estimated useful lives of the programs.

Real Estate Inventories

Real estate inventories are carried at cost not to exceed estimates of net realizable value determined on an individual project basis. Land and land development is apportioned among the projects on the basis of sales value. Marketing and other capitalized predevelopment costs relating to residential and commercial projects are charged to cost of real estate sales as related units are closed.

Entertainment Attractions and Other Property

The Company, at any one point in time, will have a number of projects in the concept, design, or construction phases related to entertainment and recreation attractions, buildings and equipment. All projects in progress are evaluated on a continuing basis and, upon completion, costs of major replacements and improvements are capitalized. If it is determined that a project in progress has no future use, the costs of such project are charged to income under the caption "Design Projects Abandoned."

Depreciation is provided principally on the straight line method using estimated service lives ranging from three to fifty years.

Other Assets

Deferred preopening and start-up costs relating to Epcot Center and The Disney Channel are being amortized over five years. Rights to the name, likeness, and portrait of Walt Disney are being amortized over forty years.

Taxes on Income

Taxes are provided on all revenue and expense items included in the Consolidated Statement of Income, regardless of the period in which such items are recognized for income tax purposes, except for items representing a permanent difference between pretax accounting income and taxable income. In fiscal 1984, the method of accounting for investment tax credits was changed from the deferral method, which amortizes the credits over the estimated useful lives of the related assets, to the flow-through method, which reduces the provision for taxes on income in the year the related assets are placed into service (Note 12).

2. *Film Production Costs* (In thousands)

Theatrical and television film production and programming costs consist of the following:

	1985	1984
Released, less amortization	$ 94,785	$ 66,746
Completed, not yet released	3,052	4,511
In process	84,252	31,205
	$182,089	$102,462

Based on management's total gross revenue estimates as of September 30, 1985, approximately 85% of unamortized film costs applicable to released theatrical and television films and programs will be amortized during the next three years. Television programming included in film production costs total $75.3 and $51.3 million at September 30, 1985 and 1984, respectively.

3. *Borrowings* (In thousands)

Borrowings consist of the following:

	1985	1984
Commercial paper	$347,600	$200,175
Borrowings under unsecured revolving lines of credit	26,500	408,000
15.75% Eurodollar notes redeemed November 30, 1984		100,000
12.50% Eurodollar notes due October 1, 1987	150,000	
12.50% Eurodollar notes due March 15, 1989 and redeemable at option of Company after September 15, 1986	75,000	75,000
9.125% ECU notes due March 29, 1995, principal payable in annual installments of $12,484 commencing March 29, 1991	62,420	
7.30% yen term loan due July 30, 1995, principal payable in semi-annual installments of $2,500	50,000	53,125
9.32% pounds sterling term loan due September 18, 1996, principal and interest payable in varying semi-annual installments	33,014	
6.00% to 13.50% notes payable due in varying amounts through 1991, secured by real estate inventories and certain property	28,473	25,609
	773,007	861,909
Borrowings from limited partnership, net of unamortized discount	50,044	
	$823,051	$861,909

Revolving Lines of Credit and Commercial Paper

The Company has available through 1988 unsecured revolving lines of bank credit of up to $1.15 billion for general corporate purposes. The Company has the option to borrow at various interest rates not to exceed the bank's prime rate. In 1988, any amounts outstanding may be converted into term loans at rates not to exceed 1/4 of 1% above the prime rate. The Company is required to meet certain financial covenants, including net worth, leverage, and interest coverage requirements. The lines are available in part to support commercial paper borrowings and intermediate notes. As of September 30, 1985, the Company had $27 million outstanding under the lines, with interest at 9.19%, and had issued $348 million of commercial paper used for current operations with interest at 7.94%. As of September 30, 1984, interest rates associated with outstanding borrowings of $408 million under the lines and commercial paper of $200 million were 12.40% and 11.38%, respectively.

Term Loans

During 1985, the Company refinanced its Japanese yen term loan, lowering the interest rate from 8.60% to 7.30% and extending it through 1995. In addition, the Company issued 9.125% ECU (European Currency Unit) notes due March 29, 1995 for ECU 80 million, or $62.4 million. Concurrent with the completion of this offering, the Company entered into a forward exchange agreement with a financial institution which effectively converts the ECU notes into Japanese yen equivalents. The resulting 6.565% yen borrowing is due March 29, 1995 and payable in semi-annual installments commencing March 29, 1990. The Company previously had entered into another forward exchange agreement which effectively converted $50 million of the $75 million 12.50% Eurodollar notes into yen equivalents. This 7.40% yen borrowing is due March 14, 1989 with interest payable annually. The Company has hedged all yen borrowings by designating its cumulative yen royalty receipts from Tokyo Disneyland and other Japanese royalty sources to service principal and interest yen payments, thus offsetting the impact of exchange rate fluctuations.

Term loans and notes payable, excluding Eurodollar notes, mature as follows: $20,900-1986; $7,600-1987; $7,800-1988; $18,900-1989; $8,100-1990; and $110,600 thereafter.

Borrowings from Limited Partnership

In April, 1985, the Company entered into certain loan, joint venture and distribution agreements with Silver Screen Partners II, an unrelated limited partnership (Silver Screen II), which completed a public offering in fiscal 1985. It is contemplated that approximately $170 million in net proceeds will be provided through non-interest bearing loans to the Company to finance the cost of the Company's theatrical films, subject to certain limitations, until the full amount of the funding has been utilized. Of the $58 million received by September 30, 1985, approximately $22 million relates to the partial financing of four films already produced.

The film distribution agreements provide for the allocation of film revenues between the Company and Silver Screen II. If film revenues received by Silver Screen II are not sufficient to repay the amounts loaned, the Company is obligated to make certain shortfall payments, under specified conditions, on the fifth or fifteenth anniversary of the film's theatrical release.

Capitalization of Interest

The Company capitalizes interest costs on assets constructed for its theme parks and real estate developments, and on theatrical and television productions in process. In 1985, the Company capitalized $31.6 million of $87.6 million total interest costs incurred. In 1984 and 1983, $32.1 and $25.4 million, respectively, of total interest costs of $75.8 and $43.3 million were capitalized.

4 Taxes on Income (In thousands)

Income (loss) before taxes on income consists of the following:

	1985	1984	1983
Domestic (including U.S. exports)	$286,182	$ (7,445)	$140,725
Foreign subsidiaries	23,709	24,178	22,735
Income before taxes on income	$309,891	$ 16,733	$163,460

The provision (benefit) for taxes on income consists of the following:

	1985	1984	1983
Payable (refundable)			
Federal	$ 5,053	$ (54,007)	$ (67,906)
State	5,957	(105)	2,369
Foreign			
Foreign subsidiaries	8,425	8,821	8,737
Other	7,567	7,019	6,751
	27,002	(38,272)	(50,049)
Deferred			
Federal	98,031	31,967	123,818
State	11,367	1,305	6,531
Investment credits amortized			(10,000)
	109,398	33,272	120,349
Provision (benefit) for taxes on income	$136,400	$ (5,000)	$ 70,300

The components of deferred taxes on income included in the provision (benefit) for taxes on income are as follows:

	1985	1984	1983
Excess of tax over book depreciation and amortization	$ 76,337	$ 73,810	$ 89,193
Installment sales on land	11,443	3,381	
Difference between investment credits claimed for tax purposes and amortization under deferral method for financial reporting purposes (Note 12)			17,000
Interest capitalized for financial reporting purposes	8,358	13,230	12,700
Difference between Epcot Center participant fees included in income for tax purposes and deferred for financial reporting purposes	(2,537)	(2,820)	(5,584)
Difference between unusual charges included in expenses for financial reporting purposes and deferred for income tax purposes (Note 11)	6,501	(45,170)	
Other	9,296	(9,159)	7,040
Provision for deferred taxes on income	$109,398	$ 33,272	$120,349

The difference between the U.S. federal income tax rate and the Company's effective income tax (benefit) rate is explained below:

	1985	1984	1983
Federal income tax rate	46.0%	46.0%	46.0%
State income taxes, net of federal income tax benefit	3.0	3.9	2.9
Reduction in taxes resulting from investment tax credits (Note 12)	(3.4)	(53.8)	(6.1)
Difference in carrying values of certain Arvida assets and liabilities for tax and financial reporting purposes (Note 10)	(2.3)	(44.0)	
Nondeductible acquisition and other costs		11.2	
Amortization of Walt Disney name rights	.1	2.6	.3
Other	.6	4.1	(.1)
Effective income tax (benefit) rate	44.0%	(30.0%)	43.0%

5. *Pension Programs* (In thousands)

The Company contributes to various tax-qualified pension plans under union and industry-wide agreements. Contributions are based upon the hours worked or gross wages paid to covered employees.

The Company also maintains tax-qualified pension plans covering most of its domestic salaried and hourly employees not covered by union or industry-wide pension plans, and a non-qualified, unfunded key employee retirement plan. The Company generally makes contributions to the plans equal to amounts accrued. Pension expense amounts meet or exceed the minimum required under the Employee Retirement Income Security Act of 1974.

All of the pension plans maintained by the Company, except for the restated key employee retirement plan, are funded by Company contributions and, where applicable, by employee contributions to trusts administered by banks. A comparison of the accumulated plan benefits for these pension plans with net assets available for benefits as of the dates of the latest available actuarial valuations is as follows:

	1985	1984
Vested	$71,800	$60,700
Non-vested	11,800	11,000
Actuarial present value of accumulated plan benefits	$83,600	$71,700
Net assets available for benefits	$84,700	$73,100

The 1985 actuarial present value of accumulated plan benefits was calculated based upon actuarial interest rate assumptions ranging from 8.8% to 12%.

The aggregate amounts expensed for all of these plans were $14,700, $11,100 and $9,600 for fiscal years 1985, 1984 and 1983, respectively, and includes current service costs and amortization of unfunded prior service costs over 10 years. The increase in pension expense in fiscal year 1985 resulted primarily from an enhancement of certain benefits arising from a restructuring of the Company's pension program for salaried employees in May, 1984.

Stock Option and Ownership Plans (In thousands, except share data)

Stock Option Plans

Under the 1973 and 1980 Stock Option Plans, the 1981 Incentive Plan and the 1984 Stock Incentive Plan, the Company grants stock options to key executive, management and creative personnel at prices equal to market price at the date of grant. The options and prices set forth below have been adjusted, where applicable, for all subsequent stock splits and stock dividends.

Transactions under the various Plans during fiscal year 1985 were as follows:

	Number of Shares	
	Options Granted	Available For Grant
Outstanding September 30, 1984 ($20.77 to $64.31 per share)	954,487	554,940
1984 Stock Incentive Plan		1,700,000
Options cancelled	(46,043)	44,076
Options granted	2,024,400	(2,024,400)
Options exercised	(176,248)	
SAR's exercised	(11,358)	
Outstanding September 30, 1985 ($37.69 to $90.75 per share)	2,745,238	274,616

Options are exercisable beginning not less than one year after date of grant. All options expire ten years after the date of grant. At September 30, 1985, options on 584,926 shares granted under the various plans were exercisable at $37.69 to $64.31 per share.

The plans permit the granting of stock appreciation rights (SAR's) in connection with any option granted under the plans. In lieu of exercising a stock option, SAR holders are entitled, upon exercise of an SAR, to receive cash or common shares or a combination thereof in an amount equal to the excess of the fair market value of such shares on the date of exercise over the option price. As of September 30, 1985, SAR's were outstanding with respect to 96,634 shares subject to options under various plans. These SAR's were granted to a limited number of key employees. Income and overhead accounts were charged with $3,112 during fiscal year 1985 (credited with $905 — 1984 and charged with $3,460 — 1983) with respect to SAR's.

Stock Ownership Plans

The Company has a Payroll Based Employee Stock Ownership Plan (PAYSOP) effective January 1, 1983 for all regular employees, as defined, with three years of service. Under the Plan's provisions, the Company claims an additional 1/2 of 1% of compensation of covered participants as an income tax credit and pays such an amount to a trust which then purchases shares of the Company's common stock in the open market for the employees' benefit. Relating to fiscal 1984 and 1983, $1,586 and $1,144, respectively, has been used to purchase 22,789 and 21,409 shares of common stock.

7. *Stockholders Equity* (In thousands, except per share data)

	Common Shares Issued and Outstanding		
	Number	Amount	Retained Earnings
Balance at September 30, 1982	33,351	$588,250	$686,534
Exercise of stock options	128	4,754	
Income tax benefit from exercise of stock options		1,657	
Stock offering in February, 1983	1,100	70,883	
Other	(70)	(3,640)	
Dividends ($1.20 per share)			(41,100)
Net income			93,160
Balance at September 30, 1983	34,509	661,934	738,594
Exercise of stock options	85	3,062	
Income tax benefit from exercise of stock options		856	
Common stock repurchased (i)	(4,198)	(327,679)	
Common stock issued (Note 10)	3,333	21,815	
Dividends ($1.20 per share)			(40,941)
Net income			97,844
Balance at September 30, 1984	33,729	359,988	795,497
Exercise of stock options	176	8,514	
Income tax benefit from exercise of stock options		1,556	
Common stock repurchased (ii)	(1,561)	(114,360)	
Dividends ($1.20 per share)			(39,798)
Net income			173,491
Balance at September 30, 1985	32,344	$255,698	$929,190

(i) On June 11, 1984, the Company repurchased 4.2 million shares of the Company's common stock from Reliance Insurance Company at an aggregate cost, including related expenses, of $327.7 million. On a pro forma basis, if the 4.2 million shares had been repurchased at the beginning of 1984, the effect would have been to reduce net income $14 million ($.43 per share) for 1984 on lower average number of shares outstanding of 33 million. In addition, dividends would have been reduced by $2.5 million.

(ii) Under a program to repurchase up to 3.5 million shares authorized by the Board of Directors in November, 1984, the Company has repurchased 1.6 million shares of common stock at prevailing market prices during fiscal year 1985.

8. Detail of Certain Balance Sheet Accounts (In thousands)

Accounts and Notes Receivable	1985	1984
Trade, net of allowances	$160,781	$120,168
Notes and mortgages	80,000	52,594
	$240,781	$172,762

Real Estate Inventories	1985	1984
Completed	$ 39,733	$ 18,943
In progress	132,040	154,192
Land	49,053	56,289
	$220,826	$229,424

Other Assets	1985	1984
Walt Disney name rights, net of amortization	$ 34,325	$ 35,270
Investments in joint ventures, principally on the equity method	28,093	20,801
Epcot Center and The Disney Channel preopening and start-up costs, net of amortization	17,007	24,948
Prepaid expenses	26,874	23,791
Other	22,089	13,826
	$128,388	$118,636

Accounts Payable, Payroll and Other Accrued Liabilities	1985	1984
Accounts payable	$147,259	$128,325
Payroll and employee benefits	96,334	83,846
Property, payroll and other taxes	16,565	17,703
Cash dividends payable	9,850	10,118
	$270,008	$239,992

Unearned Deposits and Advances	1985	1984
Epcot Center participation fees, unearned*	$ 96,170	$ 93,372
Other unearned deposits and advances	75,739	85,535
	$171,909	$178,907

* Pursuant to participation agreements with corporate sponsors, the Company expects to have received approximately $407 million in Epcot Center participant fees through 1996 of which $178 million has been received as of September 30, 1985.

9. Business Segments (in thousands)

The Company operates in four business segments: Entertainment and Recreation, Filmed Entertainment, Community Development and Consumer Products. These business segments are identified in the Description of the Business in Note 1.

The Consolidated Statement of Income presents revenues and operating income by business segment. Operating income for fiscal year 1984 excludes unusual charges of $166 million (Note 11). The Filmed Entertainment business segment includes operating income for The Disney Channel for fiscal year 1985 as compared to operating losses of $35 and $28 million for fiscal years 1984 and 1983, respectively. The Disney Channel commenced operations in April, 1983. Additional financial information relative to business segments follows.

Capital expenditures for entertainment attractions and other property by business segments were:

	1985	1984	1983
Entertainment and recreation	$154,964	$145,295	$287,940
Filmed entertainment	12,170	23,959	1,845
Community development	6,391	6,509	
Consumer products	57	244	222
Corporate	5,559	6,044	1,195
	$179,141	$182,051	$291,202

Depreciation expense of entertainment attractions and other property by business segment was:

	1985	1984	1983
Entertainment and recreation	$104,207	$100,497	$ 88,059
Filmed entertainment	4,175	3,027	1,643
Community development	3,222	2,094	
Consumer products	67	147	135
Corporate	1,159	842	347
	$112,830	$106,607	$ 90,184

Identifiable assets by business segment were:

	1985	1984	1983
Entertainment and recreation	$2,087,539	$2,012,553	$2,018,787
Filmed entertainment	299,061	212,871	200,195
Community development	396,002	351,952	
Consumer products	15,337	17,458	17,387
Corporate	99,346	144,609	144,826
	$2,897,285	$2,739,443	$2,381,195

10. Arvida Acquisition

On June 6, 1984, the Company acquired all of the outstanding common stock of Arvida Corporation (Arvida) in exchange for 3.3 million shares of the Company's common stock. The acquisition was accounted for under the pooling of interests method and Arvida's financial position and results of operations are included in the consolidated financial statements of the Company for the period commencing January 1, 1984. The Company's consolidated financial statements for the periods ended prior to December 31, 1983 exclude the operating results of Arvida because Arvida's purchase accounting basis as a predecessor company makes its financial statements after December 31, 1983 not comparable to those of the predecessor company.

Unaudited revenues and net income (before accounting change for investment tax credits) for the Company for the six months ended March 31, 1984 (the nearest interim period prior to the combination) were $648 and $31 million, respectively. Unaudited revenues and net income for Arvida for the three months ended March 31, 1984 were $61 and $9 million, respectively.

11. Unusual Charges

As a result of management's evaluation of certain Company assets based upon redefined corporate strategies, the Company recorded unusual charges of approximately $166 million in the fourth quarter of fiscal 1984. The charges included a provision for write-downs to estimated net realizable values of $112 million for motion picture and television properties in release, in production and under development (Filmed Entertainment segment), $40 million for the abandonment of certain projects in conceptual design and development for Walt Disney World or Disneyland (Corporate segment) and $14 million for the estimated cost of other restructuring measures (Corporate segment).

In addition to the other unusual charges, the Company incurred $20 million of certain nonrecurring corporate general and administrative expenses mostly in the fourth quarter of fiscal year 1984. The expenses consisted principally of fees related to a terminated acquisition, costs of the Arvida merger and costs associated with changes in executive management.

12. Accounting Change

To conform with accounting practices predominantly used in industries in which the Company operates, the Company elected to change its method of accounting for investment tax credits from the deferral method to the flow-through method in fiscal 1984. The recognition of cumulative deferred investment tax credits increased net income by $76 million or $2.12 per share for fiscal year 1984. If the flow-through method had been used in fiscal year 1983, net income would have increased to $111 million or $3.22 per share.

13. Contingencies

The Company's subsidiary, Buena Vista Distribution Co., Inc., is a defendant with other motion picture distributors in a number of private treble damage actions asserting claims under the federal anti-trust laws. These actions, which have been filed over several years and in which the Plaintiffs seek damages aggregating hundreds of millions of dollars, are in various stages of pre-trial proceedings. The Company has denied the material allegations of the complaints in these actions, and in the opinion of management and counsel, the Company will not suffer any material liability by reason thereof.

During June and July, 1984, a number of lawsuits were filed alleging, among other things, breaches of fiduciary duties by members of the Company's Board of Directors in connection with the acquisition of Arvida (Note 10) and the Company's repurchase of its common stock from Reliance (Note 7). Plaintiffs seek, among other things, recission of the Reliance transaction. In the opinion of management and counsel, the Company does not expect to suffer any material liability by reason thereof.

In addition, the Company is a defendant in various routine litigation incident to the conduct of its businesses. In the opinion of management and counsel, the Company will not suffer any material liability by reason thereof.

Supplementary Information Regarding Inflation and Changing Prices

There is no universally accepted method for measuring the effect of inflation in financial statements. In recognition of the need to provide readers of financial statements with information to assist them in assessing that impact, the Financial Accounting Standards Board requires a supplementary disclosure of certain financial information adjusted for changing prices.

Inflation accounting as required by the Financial Accounting Standards Board involves the use of numerous assumptions, approximations and estimates, and should be viewed in that context and not as a precise indicator of the effects of inflation. The reader is cautioned not to attach too much significance to any one year's adjusted results. Even when several years are viewed consecutively, the information is considered to be of limited use until the reader completely understands the principles and concepts utilized in compiling the data.

Supplementary Statement of Consolidated Income Adjusted for Changing Prices

Year Ended September 30, 1985
(In thousands)

Income from continuing operations, as reported	$173,500
Adjustments for general inflation (constant dollar)	
Cost of sales	(7,600)
Depreciation	(58,700)
Amortization of film production and programming costs	(3,100)
Constant dollar income from continuing operations	$104,100
Gain from decline in purchasing power of net amounts owed	$ 43,000

At September 30, 1985 the constant dollar/historical cost of inventories was $309,300, film production costs net of amortization was $193,300 and entertainment attractions and other property net of accumulated depreciation was $2,994,400.

In the preceding Supplementary Statement of Income, historical cost financial information is adjusted for changes that have occurred in the general purchasing power of the dollar as measured by the Consumer Price Index for all Urban Consumers (CPI-U).

Net assets at year end are increased by $1,008 million when the cost of inventories, film production and entertainment attractions and property are adjusted to average 1985 dollars. This increase in the valuation of assets results in an increase in depreciation expense of $59 million. This adjustment of depreciation expense is the primary cause of the decrease in net income adjusted for the effects of inflation. However, the Company does not believe that this hypothetical calculation has much relevance to its operations. The Company believes that cash provided by operations when adjusted for changing prices provides a more meaningful insight into the impact of inflation, because it excludes non-cash charges such as depreciation. Cash provided by operations has increased at a compounded annual growth rate of 20% when expressed in average 1985 dollars (compared to a growth rate of 26% as reflected in the primary financial statements). In computing the above amounts, normal service lives and depreciation/amortization rates have been applied to the adjusted amounts. No adjustments are made to fully depreciated assets currently utilized in the Company's business. Revenues and all other expenses are considered to reflect the average price levels for the year and accordingly have not been adjusted.

In accordance with the accounting requirements, no adjustment has been made to the provision for income taxes included in the supplementary statement of consolidated income.

As required, certain selected financial data are restated based on the average CPI-U for the year for each of the five years shown below. Although not required information, the Company has provided additional selected supplementary financial data relating to cash provided by operations, investment in entertainment attractions and other property, and investment in film production and programming. All amounts are expressed in average 1985 dollars.

Five Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices in Constant Dollars

In Average 1985 Dollars
(In thousands, except for per share data)

Year Ended September 30	1985	1984	1983	1982	1981
Revenues	$2,015,400	$1,716,800	$1,410,600	$1,150,700	$1,205,700
Net income (loss) from continuing operations	104,100	(39,500)	51,800	67,600	98,700
Earnings (loss) per share from continuing operations	3.09	(1.10)	1.52	2.03	3.02
Net assets at year end	2,193,300	2,065,000	2,298,300	2,122,200	2,039,400
Cash provided by operations	531,300	429,200	364,000	306,900	252,900
Investment in entertainment attractions and other property	184,900	201,300	360,100	686,300	400,000
Investment in film production and programming costs	149,900	132,300	90,400	58,400	66,500
Cash dividends per share	1.20	1.24	1.29	1.34	[illegible]
Market price per common share at year end	83.88	61.30	65.61	63.25	56.08
Gain from decline in purchasing power of net amounts owed	43,000	43,200	23,100	21,900	4,800
Average consumer price index	319	303	296	286	266

iarterly Financial Summary

thousands, except per share data)

	December 31**	March 31	June 30	September 30**
)PERATIONS BY QUARTER*				
985				
evenues				
Entertainment and recreation	$232,600	$270,002	$368,804	$386,111
Filmed entertainment	78,233	89,528	77,111	75,114
Community development	84,129	63,935	78,778	88,512
Consumer products	31,568	28,004	22,216	40,784
	$426,530	$451,469	$546,909	$590,521
ncome (Loss) Before Corporate Expenses				
Entertainment and recreation	$ 26,480	$ 44,433	$ 92,885	$102,589
Filmed entertainment	15,374	23,332	4,344	(9,408)
Community development	28,332	6,589	12,732	14,798
Consumer products	16,615	14,618	9,729	15,354
	$ 86,801	$ 88,972	$119,690	$123,333
Income Before Taxes on Income	$ 56,889	$ 63,165	$ 93,667	$ 96,170
Net Income	$ 32,189	$ 34,965	$ 52,567	$ 53,770
Earnings per Share	$0.95	$1.04	$1.56	$1.60
Dividends per Share	$0.30	$0.30	$0.30	$0.30
1984				
Revenues				
Entertainment and recreation	$224,895	$244,262	$314,610	$313,592
Filmed entertainment	46,585	73,612	67,841	56,514
Community development		61,185	74,609	68,590
Consumer products	30,679	28,242	26,259	24,502
	$302,159	$407,301	$483,319	$463,198
Income (Loss) Before Corporate Expenses and Unusual Charges				
Entertainment and recreation	$ 21,377	$ 38,348	$ 68,075	$ 64,895
Filmed entertainment	(6,120)	1,070	7,728	(429)
Community development		12,678	17,782	11,766
Consumer products	16,252	15,832	11,240	10,539
	$ 31,509	$ 67,928	$104,825	$ 86,771
Income Before Unusual Charges, Taxes on Income and Accounting Change	$ 16,091	$ 51,492	$ 81,557	$ 33,553
Net Income (Loss)	$ 85,102	$ 31,313	$ 45,436	$(64,007)
Earnings (Loss) per Share	$2.46	$0.82	$1.23	$(1.89)
Dividends per Share	$0.30	$0.30	$0.30	$0.30

* Quarterly earnings per share amounts do not necessarily total to the year end earnings per share amount due to the varying amounts of average shares outstanding during the periods.

** See Notes 11 and 12 of Notes to Consolidated Financial Statements for description of the fourth quarter fiscal 1984 unusual charges, nonrecurring corporate general and administrative expenses, and the first quarter fiscal 1984 accounting change.

Selected Financial Data

(In thousands, except Per Share Data and Other Data)

	1985	1984	1983	1982	1981
Statement of Income Data					
Revenues	$2,015,429	$1,655,977	$1,307,357	$1,030,250	$1,005,040
Income before corporate expenses	418,796	291,033	220,375	200,116	214,664
Corporate expenses	57,261	66,602	42,849	36,104	30,814
Interest expense (income) – net	51,644	41,738	14,066	(14,781)	(33,130)
Unusual charges*		165,960			
Taxes on income (benefit)	136,400	(5,000)	70,300	78,700	95,500
Change in accounting for investment tax credits*		(76,111)			
Net income	173,491	97,844	93,160	100,093	121,480
Balance Sheet Data					
Film production costs	182,089	102,462	127,010	108,067	120,640
Real estate inventories	220,826	229,424			
Entertainment attractions and property, net of depreciation	2,001,691	1,937,346	1,871,809	1,673,238	1,069,369
Total assets	2,897,285	2,739,443	2,381,195	2,102,816	1,610,009
Borrowings	823,051	861,909	352,575	315,000	110,000
Total liabilities and deferred credits	1,712,397	1,583,958	980,667	828,032	442,891
Total net assets (stockholders equity)	1,184,888	1,155,485	1,400,528	1,274,784	1,167,118
Statement of Changes in Financial Position Data					
Cash provided by operations	531,302	414,036	337,356	274,782	210,805
Cash dividends	39,798	40,941	41,100	39,742	32,406
Investment in entertainment attractions and property	184,870	194,142	333,738	614,416	333,407
Investment in film production and programming costs	149,945	127,595	83,750	52,295	55,454
Per Share Data					
Net income	$5.15	$2.73	$2.70	$3.01	$3.72
Cash dividends	1.20	1.20	1.20	1.20	1.00
Stockholders equity	36.63	34.26	40.58	38.22	35.99
Average number of common and common equivalent shares outstanding during the year (in thousands)	33,712	35,849	34,481	33,225	32,629
Other Data					
Stockholders at close of year	58,000	62,000	60,000	61,000	60,000
Employees at close of year	30,000	28,000	30,000	28,000	25,000

* See Notes 11 and 12 to Consolidated Financial Statements for description of fiscal 1984 unusual charges, nonrecurring corporate general and administrative expenses, and accounting change.

Revenues by Business Segment

(In thousands)

	1985	1984	1983	1982	1981
Entertainment and Recreation					
Admissions and rides	$ 480,724	$ 406,644	$ 380,939	$ 251,777	$ 231,391
Merchandise sales	311,501	262,064	244,624	198,094	200,611
Food sales	247,416	223,848	224,490	165,810	159,871
Lodging	108,982	104,779	98,105	81,427	70,110
Participant fees, Walt Disney Travel Co., Tokyo Disneyland royalties and other	108,894	100,024	83,044	28,502	29,828
	$1,257,517	$1,097,359	$1,031,202	$ 725,610	$ 691,811
Filmed Entertainment					
Theatrical	$ 84,180	$ 108,861	$ 82,460	$ 119,933	$ 130,903
Television	126,297	57,479	27,992	44,420	43,672
Home Video and Non-Theatrical	109,509	78,212	55,006	37,749	22,231
	$ 319,986	$ 244,552	$ 165,458	$ 202,102	$ 196,806
Community Development					
Residential	$ 121,014	$ 53,038			
Land and commercial property	115,244	90,166			
Resort operations and other	79,096	61,180			
	$ 315,354	$ 204,384			
Consumer Products					
Character merchandising and promotions	$ 60,968	$ 45,093	$ 47,802	$ 37,956	$ 31,380
Publications	19,510	18,184	20,006	20,821	24,658
Records and music publishing	31,833	33,734	30,666	26,884	27,358
Educational media	10,261	12,671	12,223	16,877	33,027
	$ 122,572	$ 109,682	$ 110,697	$ 102,538	$ 116,423

BOARD OF DIRECTORS

*Caroline Leonetti Ahmanson**†
Chairman Emeritus
Federal Reserve Bank of San Francisco
12th District

Charles E. Cobb, Jr.††
Chairman and Chief Executive Officer
Arvida Disney Corporation

Joseph F. Cullman 3rd†
Chairman Emeritus
Philip Morris Incorporated
(manufacturing)

Roy E. Disney
Vice Chairman
Walt Disney Productions

Michael D. Eisner††
Chairman and Chief Executive Officer
Walt Disney Productions

*Ignacio E. Lozano, Jr.**†
Publisher, LA OPINION
(newspaper publishing)

*Sharon Disney Lund**
Vice Chairman
Retlaw Enterprises, Inc.
(investments)

Richard A. Nunis††
President
Walt Disney Attractions

Donn B. Tatum
Former Chairman and Chief Executive Officer
Walt Disney Productions

E. Cardon Walker
Former Chairman and Chief Executive Officer
Walt Disney Productions

Raymond L. Watson††
Chairman of the Executive Committee
Walt Disney Productions

Frank G. Wells††
President and Chief Operating Officer
Walt Disney Productions

*Samuel L. Williams**†
Senior Partner
Hufstedler, Miller, Carlson & Beardsley
(law firm)

Gary L. Wilson††
Executive Vice President
and Chief Financial Officer
Walt Disney Productions

* Member of Audit Review Committee
† Member of Compensation Committee
†† Member of Executive Committee

DIRECTOR EMERITUS
William H. Anderson

CORPORATE OFFICERS

Michael D. Eisner
Chairman of the Board and Chief Executive Officer

Frank G. Wells
President and Chief Operating Officer

Roy E. Disney
Vice Chairman of the Board

Gary L. Wilson
Executive Vice President and
Chief Financial Officer

Joe Shapiro
Senior Vice President – General Counsel

John J. Cornwell
Vice President – Management Information Services

Jose M. Deetjen
Vice President – Tax Administration and Counsel

Luther R. Marr
Vice President – Corporate and Stockholder Affairs

Laurence P. Murphy
Vice President – Strategic Planning

Peter F. Nolan
Vice President – Counsel

Erwin D. Okun
Vice President – Corporate Communications

Joseph M. Santaniello
Vice President – Counsel

Doris A. Smith
Vice President and Secretary

Frank P. Stanek
Vice President – Corporate Planning

Bruce F. Johnson
Controller

PRINCIPAL DIVISIONS WITH CHIEF EXECUTIVES

Arvida Disney Corporation
Charles E. Cobb, Jr.

Disney Consumer Products
Barton K. Boyd

Walt Disney Attractions
Richard A. Nunis

Walt Disney Imagineering
Carl G. Bongirno

The Walt Disney Studios
Jeffrey Katzenberg
Richard H. Frank

The Disney Channel
John F. Cooke

FOREIGN SUBSIDIARIES WITH PRINCIPAL MARKETING EXECUTIVES

BELGIUM
Walt Disney Productions (Benelux) S.A.
André Vanneste

CANADA
Walt Disney Music of Canada Limited
James K. Rayburn

DENMARK
Walt Disney Productions A/S Danmark
Gunnar Mansson

FRANCE
Walt Disney Productions (France) S.A.
Armand Bigle, Richard Dassonville
Dominique Bigle

GERMANY
Walt Disney Productions (Germany) GmbH
Horst Koblischek

ITALY
Creazioni Walt Disney S.p.A.I.
Antonio Bertini

JAPAN
Walt Disney Enterprises of Japan Ltd.
Matsuo Yokoyama
Walt Disney Productions Japan, Ltd.
Yasuku Seki, Mamoru Morita, James Cora

PORTUGAL
Walt Disney Portuguesa Criacoes
Artisticas Lda
Laszlo Hubay Cebrian

SPAIN
Walt Disney Iberica, S.A.
Enrique Stuyck

UNITED KINGDOM
Walt Disney Productions Limited
Dino Troni, Monty Mendelson, Terry Byrne
Keith Bales

DISNEYLAND INTERNATIONAL
James Cora

French newspapers herald the decision on Euro Disneyland

PARIS: Disney Chairman and Chief Executive Officer Michael Eisner signs a letter of intent confirming the selection of Marne-la-Vallee, a new town 20 miles east of Paris, as the future site of Euro Disneyland. Standing, from left, are Laurent Fabius, Prime Minister of the French Republic; Paul Seramy, President, General Council, Department of Seine-et-Marne; and Edith Cresson, Minister of Industrial Redeployment and Foreign Trade. This Associated Press Laserphoto was beamed to the United States by satellite shortly after the signing on Dec. 18, 1985.

WALT DISNEY
PRODUCTIONS

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